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Africa .

Section 1

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SELECT :

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Hong Kong

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FINANCIAL TIMES

Israel and Turkey

Peace process key to defence pact



Product strategies

Marketing matters more than innovation

shipping tycoon

as new governor

By John Ridding in Hong Kong Selection Committee, itself and business links with China,

chosen by a Beijing appointed

Speaking against the back-

drop of a curtain adorned with the seal of the People's Repub-

lic of China, he said: "It is the

first time that the people of

Hong Kong are selecting their

leader. You are writing history

today . . . Hong Kong people will rule Hong Kong."

outside the building where the

ballot was held. Condemning

erected a "tomb for democ

racy" and attacked Beijing's

Twenty-nine demonstrators

were arrested, including Ms

Emily Lau, a prominent legis-

Mr Chris Patten, the Hong

lator, who was later released.

Kong governor, gave a vote of

confidence in Mr Tung and

offered him "all the necessary

assistance" during the run-up

to the handover. But he urged

promised Hong Kong under

Critics question whether Mr

Sino-British treaties.

elected legislature.

tury Hong Kong has been a cians staged demonstrations

believe we can do better than the selection process, they

stone in Hong Kong's return to plan to replace the territory's

moment and a completely new him to defend the autonomy

the session of the 400-member Tung, who has close personal

But pro-democracy politi-



Green cars

Can Smile compete with Smart and Ka?



Cambridge, Pakistan

Brussels attacks | First post-colonial leader hailed as steady hand for transition

Trucks face a uniform \$180 levy. European commissioner Hans van den Broek said the move went "against the spirit" of last summer's interim trade agreement between the European

earnings to restructure its balance sheet. Francisco Gómez Roldán, head of retail banking, takes the new role of chief executive.

ditions for approving an alliance between tish Airways and American Airlines are completely inadequate" for promoting competition, said Stephen Wolf, chairman of rival

Russia accepts Nato invitation to talks:

Russian foreign minister Yevgeny Primakov, gestion of a dialogue that could lead to a formal enlargement plans. Page 2

Deal creates US insurance giant: Aon Corporation of Chicago is to buy Alexander & Alexander Services of New York in deal valued at about \$1,23bn. The companies say it will create the world's largest insurance broker. Page 15: Lex. Page 14

siles from Ukraine; Ukraine has also denied it. The UN has banned arms sales to Libya over its failure to hand over suspects in the 1988 bomb-

selling 388m shares of the state telecoms giant Telkom to raise \$600m to speed up payments on foreign debt. The block sale represents 4.15 per cent of the paid-up capital of Telkom, which floated 15 per cent in November last year.

Scotland's food poisoning outbreak, caused by the E-coli bacteria, claimed its 11th victim with the death of a 70-year-old man in a Glasgow hospital. There are now more than 200 confirmed cases of, making it the worst out-

Agreement on the Ganges: India and sharing the waters of the Ganges River, settling what has been the chief dispute between the

UK minister quits: David Willetts quit as a fellow legislators. They had been looking into claims that he tried to influence a committee's

Shell to put \$10bn in Guif of Mexico: Shell Oil, the US arm of the Anglo-Dutch petro-leum group, has lined up nine deep-water oil and gas projects in the Gulf of Mexico and is prepared to spend up to \$10bn developing them.

Danes survive fighter crash: Two Danish airmen were taken to hospital after ejecting when their F16 fighter aircraft crashed soon after take-off from a British Royal Air Force base in Norfolk, eastern England.

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O THE FINANCIAL TIMES LIMITED 1996 No 33,164

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THURSDAY DECEMBER 12 1996

Party, the largest group in the

co-operate with Mr Tung for a

the transition and of the terri-

tory's policies of low taxation,

is seen as steering a steady

one country, two systems for-

from Hong Kong to Taiwan.

faced with contentious issues.

These include this month's

Rail ambitions scaled down,

Page 4; Uncharted territory

formation of the so-called pro-

visional legislature.

"His pro-business stance and

course on economic issues.

probationary period.

Industries.

Technology, Page 10



Today's surveys

Kuwait

Separate sections; Pages 21-23

Russian plan for border taxes

The European Commission yesterday launched a formal diplomatic complaint to Moscow over a Russian border tax to be levied on all goods and people. The new tax means everyone, Russian or not, will pay \$10 to leave or enter the country. Aircraft, trains and cars will be taxed according to cargo and passenger numbers.

Changes at Spanish bank: Argentaria, part state-controlled Spanish banking group, plans to use almost half this year's expected pre-tax

alliance assalled: The UK government's



left, told Nato secretary general Javier Solana that Moscow was ready to take up Nato's sug-Nato-Russia charter by summer. "This opens the way to fruitful discussions," he said, while reiterating Moscow's opposition to Nato's

Libya denies missile deal: Libya has ing of a US airliner over Scotland.

Indonesian telecoms sale: Indonesia is

break in Britain.

Bangladesh were due to sign an accord today on neighbours for more than 20 years. Page 4

junior minister after being strongly criticised by investigation into the behaviour of another Conservative MP. Page 8

· · · ·		market and slides in heating	
FT.com: the FT web site procomment and analysis at htt	ovides online news, p://www.FT.com	oil and gasoline prices. January futures prices for North Sea Brent crude closed	2 NW
M STOCK MARKET INDICES	E GOLD	at \$22.675 a barrel on London's	
New York: Issechtime Dow Joses Ind Av 6,379.45 NASDAO Composite 7,290.65 Large and Far East CACSO 4,281.28 (-38.12	Logdos	International Petroleum Exchange as hedge funds sold oil futures. On Tuesday they closed at \$23.29. Heating oil futures have lost	21 Nov 19 Source Detastoers
0AX 2841.05 (-49.95 FTSE 100 2982.5 (-53.2 Niider 20.568.38 (-253.74	Rew York: kunchtime £1.8575.	10 per cent of their value over the past three days and gaso- line prices are down from 70	rels a day of Irac Sentiment in the changed because
Foderal Funds S.1% 3-min Tress Bais: Yat 4.816% Long Bond S.579%	DM1.542 Ff:5.2215 SF:1.314 Y112.90	cents to 64 cents a gallon. The falls follow recent strength in the market. A London trader said: "It was a products-led rally and,	that had buoyed to weaken. Low in the US had a heating oil and recently as tra-
ECTIVER RATES EE: 3-no inhonent	Sr 1.313 (1.3265) Y 112.85 (113.345)	now they have bombed out, the market is collapsing." Iraqi oil exports began for the first time in six years yes- terday after the agreement of an oil-for-find sale with the	But stocks hav past few weeks. Petroleum institu 6m barrel rise stocks last week

tute reported a se in gasoline an oil-for-food sale with the stocks last week to 195m bar-United Nations and the sign- rels, with crude stocks up ing on Tuesday of a deal \$24,000 barrels. Yet stocks by Turkey to import 75,000 bar- are still 10-20 per cent below

levels at this time last year Mr Peter Bogin, oil analyst at Cambridge Energy Research Associates in Paris, said: "It has been a confused week as the market is looking at the price of Iraqi crude and how

steady the flow of oil may be." Some analysts believe the oil market's recent strength has been overdone. Mr Ken Miller, analyst at Purvin & Gertz in Houston, sounded a note of caution about the market's ability to absorb extra Iraqi

tion that Iraqi oil can be absorbed by higher demand but that's not what our bal-

not include production from

Continued on Page 14

Hong Kong picks will do that. Mr Martin Lee, chairman of the Democratic legislature, said it would The business community was less equivocal. Mr Tung, an advocate of stability during his prudent management style will boost confidence," said Mr Henry Tang, chairman of the Federation of Hong Kong Taiwanese officials said Mr Tung's selection could help improve bilateral ties, despite Taipei's scepticism over the mula Beijing hopes to extend But Mr Tung will quickly be

Shipping tycoon Tung Chee-hwa talks to reporters on being chosen as Hong Kong's first post-colonial governor; he had a and Observer, Page 13 crushing victory in a Beijing-backed electoral college Peters AP

Analysts said the stories about "The reasons given for the

Mr Mark Brown, head of World stocks, Page 36; London

market drop look pretty flimsy

and that's a sign of the mar-

economist of Yamaichi Inter-

national (Europe), said: "The

fact that the markets are being

spooked by stories that would

normally have no impact is

symptomatic of how nervous

investors are this time of year.

The markets are eager to lock

stocks, Page 32; Bonds, 24

Mr John Shepperd, chief

ket's vulnerability."

Japan and Iran might merely

have provided an excuse for

investors to sell. Japanese

investors have been big buyers

of Treasury bonds, helping to

keep yields low and finance the US's trade and budget defi-

cits; a change of attitude

would certainly be a threat to

markets. However, figures

published yesterday showed

that Japanese purchases of for-

eign bonds in October were the

strategy and economics at

highest since June 1995.

López accused of betraying company secrets

By Wolfgang Münchau in

German prosecutors have indicted Mr José Ignacio López, who quit as Volkswagen's production chief two weeks ago, on the criminal charge of betraying company

The prosecutor in Darmstadt, near Frankfurt, has sent the indictment papers to Mr López. It has also informed General Motors, Mr López's former employer, which alleges that he embezzled company secrets before his departure for the VW board in 1993. If convicted, Mr López faces a jail sentence of up to five years. His indictment marks the climax of a highly damag-

ing dispute between the two companies which has threatened US-German relations. The German authorities gave no details of the indictment, but Mr Löpez's lawyers and public relations consultants said the prosecutor had accused him of taking and

using internal GM documents. They specifically referred to a "provisional study" for an experimental GM production plant in Spain. But Mr Jürgen Taschke and Mr Eberhard Wahle, Mr López's lawyers, claim the study did not contain any secrets. They also deny that Mr López exchanged any company secrets with other VW staff, or that GM or Adam Opel, its German subsidiary, has suffered any damages as a result. They said they would apply to have the case thrown out of court for lack of evidence.

The prosecutor has also indicted three of Mr Lopez's closest associates, including Spanish subsidiary.

GM said yesterday "that secret Opel documents must have come under the possession of Volkswagen. This also makes it clear that attempts by Volkswagen to portray the affair as a private matter for Mr López are misleading". The dispute has so far trig-

gered 11 court cases between

Continued on Page 14

Markets fall as investors take profits By Philip Coggan in London Among the rumours which the strategy ceases to work. ABN-Amro Hoare Govett, said: Dow Jones

Mr Tung Chee-hwa, the

shipping tycoon, gave an opti-

mistic and patriotic assess-

ment of Hong Kong's prospects

following his selection yester-

day as the territory's first post-

Speaking after winning 80 per cent of the votes in a Bei-

jing-backed electoral college,

he said: "For more than a cen-

colony. Now we are finally

masters in our own house...I

His selection marks a mile-

Chinese sovereignty in July.

Although criticised for his con-

servative political and social

views by the territory's pro-

democracy politicians, Mr

Tung is seen as a steady hand

who can help reconcile Hong

Kong and Chinese interests.

China heralded his selection as

"It is an exhilarating

era," said Mr Qian Qichen, the

Chinese foreign minister. He

travelled to the territory for

a historic event.

colonial governor.

World financial markets suffered another bout of nerves, after their "frantic Friday" last week, as investors decided to bank some profits at the end of a healthy year. Several factors provoked the profit-taking, including a

report that Japanese investors might reduce their commitment to the US Treasury bond market, and fears of an increase in political tension between the US and Iran. European markets were ner-

yous ahead of the Wall Street opening and their fears appeared justified when the Dow Jones Industrial Average opened sharply lower. Share prices bounced around but by late morning in New York the market was more than 100 points down.

A slight rebound in late trading left it 79.19 points lower at 6.394.06. The 30-year Treasury bond shed about 1% points.

There were signs that investors have become jittery after last week's comments from Mr Alan Greenspan, the Federal Reserve chairman, about "irrational exuberance" in stock and other asset markets.

was speculation that US producer prices would be much higher than expected (they were roughly in line with forecasts) and that IBM would issue a profits warning. However, Union Carbide, the chemicals company, did say fourth quarter profits would be hit by a rise in raw materials costs. Mr Michael Metz, chief in-

vestment strategist at Oppenheimer, attributed the sell-off to a sharp rise in bond yields that made the stock market appear "seriously overvalued". Although each new low appeared to bring in new buyers yesterday, Mr Metz was not convinced that such a trend

could continue indefinitely. "Investors have been trained, it's almost a Pavlovian response to buy on the dip." he said, but that will stop when



in London

Crude oil prices tumbled yesterday in response to the return of Iraqi crude to the

Agiz-Pacific News

Brent blend 2-month forward,

the market also se other factors w stock figures gasoline high aders expected ve risen in the

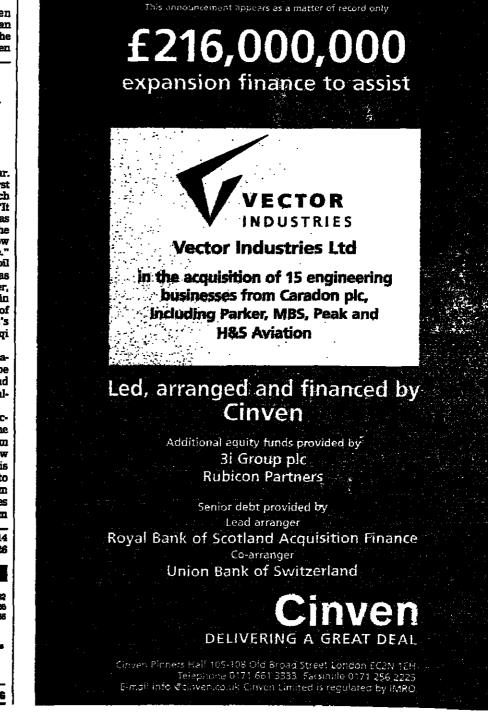
"There has been an anticipa

FT/SP-A Wild Indices......43

Foreign Exchanges25

Mr Miller believes production by countries outside the Organisation of Petroleum Exporting Countries will grow by 1.7m b/d in 1996-97. This would take non-Opec output to 39.3m b/d next year from 37.5m b/d in 1996. This increase does

Commodities, Page 26



Deep chill grips Franco-US relations

Transatlantic battles contrast strongly with Russian charm offensive at Nato

By Lionel Barber and Bruce Clark the Zaire crisis. in Brussels and John Thomhill in Moscow

This week's Nato meeting in Nato counterparts yesterday by Brussels has seen Russia and the saying that Moscow was ready to alliance, for all their differences, very much on speaking terms. But the same can hardly be said of Paris and Washington.

US officials describe the public argoments with France that surfaced at the meeting as only the ating Moscow's opposition to tip of a larger iceberg created by a general plunge in the temperature of Franco-American relations.

"The French and the Americans are fighting," said one US official. citing differences over Europe, the leadership of the United Nations (Paris backed the incumbent Mr Boutros Boutros Ghali over Mr Kofi Annan, the US choice) and

By contrast Mr Yevgeny Prima-

kov, the Russian foreign minister, was making peace. He pleased his take up the alliance's suggestion formal Nato-Russia charter by the

"This opens the way to fruitful discussions," he said, while reiter-

sian practice, Mr Primakov Nato's internal problems. He described Mr Javier Solana, the Nato secretary-general, as a "nicelooking person" with whom he room during a speech by Mr But internal problems, and in and accused the French minister of

particular the strained Franco- failing to say anything polite Russia's defence council which American atmosphere, were there about his US counterpart's retirefor all to see.

Mr Warren Christopher, the outgoing US secretary of state, clashed with his French counterpart, Mr Hervé de Charette, over a southern command, where Paris wants a European in charge, is only the best known.

tiative to create an Atlantic Partalso views as premature a US proavoided rejoicing openly over posal for Nato and Russia to exchange more liaison officers.

Solana in praise of Mr Christopher

French officials insist that there was no intention of snubbing Mr Christopher and accuse Washington of exaggerating some honest of a dialogue which could lead to a raft of issues, of which Nato's differences over European security, in which Paris is by no means

"Somebody is poisoning the France also opposes the US ini- atmosphere, and it is not us," said one French insider. "Perhaps it is Nato's enlargement plans. nership Council, grouping Nato the legitimacy of our proposals
In a break with previous Rus- and all its former adversaries. It which is upsetting the the legitimacy of our proposals Americans.

Compared with these barbed exchanges, the tone adopted by Mr US diplomats were intensely irri-tated when Mr de Charette left the But the continuing Russian scepticism about Nato was underlined by the latest comments in Moscow.

met yesterday, said he did not consider Nato currently threatened Russia, but its expansion did not answer Europe's security interests.

"If Nato is viewed by the western powers as the kernel of European security, then why does it not admit Russia?" Mr Baturin said. "If Nato is a defensive bloc, then who is it against?"

Nationalist politicians were more outspoken. Mr Victor Ilyukhin, Communist chairman of parent's security committee, said Russian missiles should be retargeted against countries joining Nato. He called for "political and economic counter-measures" against the new members, and by the latest comments in Moscow. said Russia should strengthen Mr Yuri Baturin, secretary of defence ties with its neighbours.

EUROPEAN NEWS DIGEST

Spanish strike over pay curb

The first nationwide strike movement against austerity policies under Spain's centre-right government became a battle of statistics yesterday to determine whether it was a success or a failure.

A government spokesman said "reliable" figures showed that only 18-20 per cent of public sector employees stayed away yesterday in the protest against a pay freeze next year. But trade unions claimed 1.2m had joined the movement, about 80 per cent of those called on to strike. The strike's impact was lessened by non-involvement of public transport and port workers and by emergency staffing levels to ensure such services as hospitals,

firelighting and air traffic control could function. The government said the union campaign had "little following" and the vast majority of public sector imployees evidently understood the need for measures to help Spain's bid to join the European single currency. The pay freeze is aimed at saving up to Pta200hn (\$1.53bn) on the state budget next year, the base period for qualifying for monetary union. David White, Madrid

New blow to Bonn on sick pay

Employers and unions in the North Rhine-Westphalia metal industry last night struck a landmark pay deal that provided powerful support for opponents of federal legislation permitting cuts in sick pay. The deal covers 850,000 workers in Germany's largest regional pay negotiating area. It will retain sick pay at 100 per cent of wages. It will also see wages rising by 1.5 per cent next year and 2.5 per cent in 1998.

The agreement follows a similar deal in the Lower Saxony metal industry. That deal alarmed employers and members of Chancellor Helmut Kohl's ruling coalition in Bonn, who regard a cut in labour costs as essential to restoring competitiveness and reducing unemployment. Legislation allowing a cut in sick pay to 80 per cent of wages came into effect this autumn. Ralph Atkins, Bonn

Warning over EU telecoms

Telecoms operators failing to provide access to their networks for new competitors quickly and at a fair price after the market is opened to competition in 1998 could be fined by the European Commission, according to proposals published yesterday.

The Commission published a draft notice on access to telecoms networks, one of the remaining parts of the legal framework for the sector after liberalisation. Interested parties have until February to comment.

National regulatory authorities would have primary responsibility for dealing with abuses, but abuses with a risk of "serious and irreparable harm" to the complainant or public interest could be notified to the Commission. ■ The European Commission yesterday failed to adopt a proposal to reduce use of landfill sites, after objections were raised by the office of Sir Leon Brittan, one of the European Union's UK commissioners.

■ An eight-year battle to agree rules on liberalising the EU's electricity market ended yesterday when the European parliament approved a proposed directive creating a single market in electricity - the last burdle for the controversial package.

Serb workers 'joined rallies'

Independent trade unions in Serbia said yesterday that 10,000 of their members had joined the daily demonstrations over the cancellation of opposition local election victories last month, but that many more had

The Serbian authorities have so far refrained from using force against the protests, apparently waiting for them to lose steam. But a statement yesterday from the Yugoslav interior ministry, warning it would intervene if the protests became violent, raised fears among diplomats that President Slobodan Milosevic might be considering a change of strategy.

Western governments have warned Mr Milosevic against the use of force. Washington has threatened to re-impose sanctions, which would hit the Yugoslav

The European parliament yesterday urged the EU to delay moves towards establishing closer relations until the election results are respected. Laura Silber, Belgrade

Dutch football chiefs quit

The board of the Dutch football association's professional division resigned yesterday over the collapse of Sport 7, a fledgling commercial cable television channel to which it had sold the rights to screen matches.

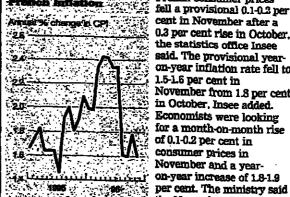
Sport 7 – which has been deserted by advertisers as ratings slid – received the final blow yesterday when Mr Hans Wijers, economy minister, wrote to tell directors of the association that while they were entitled to sell broadcast rights covering Holland's international games. they had no such claim over fixtures between clubs in the domestic professional league. This supported the position taken by Ajax and Feyenoord, the two largest clubs, which had argued that broadcast revenues from home matches belonged to them.

Live coverage was taken away from NOS, the public broadcaster, when Sport 7 was launched in August in a FI 100m (\$57m) investment by groups including Philips, the electronics manufacturer, ING, the bancassurance combine, and Endemol Entertainment, the country's biggest TV production house.

Mr Joop van den Ende and Mr John de Mol, the two main shareholders of Endemol, bought their stake of nearly 20 per cent back from their company soon after Endemol gained a listing on the bourse last Gordon Cramb, Amsterdam

ECONOMIC WATCH

French prices fall 0.1%



on-year inflation rate fell to 1.5-1.6 per cent in November from 1.8 per cent in October, Insee added. Economists were looking ior a month-on-month rise of 0.1-0.2 per cent in

consumer prices in November and a yearper cent. The ministry said resulted from a 0.6 per cent drop in prices of manufactured goods, which had risen 0.4

French consumer prices

cent in November after a

the statistics office Insee

said. The provisional year-

0.3 per cent rise in October.

per cent the month before. This sharp reversal was mainly accounted for by changes in car prices, which rose in October when government financial aid for new car purchases came to an end. Car prices fell in November as manufacturers introduced special offers to compensate for the ending of the government incentive, it said. ■ Wholesale prices in Germany fell 0.6 per cent in November from October, but were up 0.4 per cent from

November 1995. In October, wholesale prices climbed 0.2

per cent month-on-month and were up 0.9 per cent

Emu stability pact deal on the cards

and David Buchan in Paris

EU finance ministers meet today in Dublin amid guarded optimism about an 11th hour deal on the rules for enforcing fiscal discipline in the future single currency

Mr Jean-Claude Trichet, governor of the Bank of France, said he had no doubt



that member states would deal is Germany's insistence iron out their differences on on near-automatic penalties the budget stability pact. against countries running expressed confidence in a monetary union. Almost all man demands too rigid.

The European Commission is about to unveil a new logo (pictured left) for the euro, the future single currency, which will be used in its Ecu30m (\$37m) publicity campaign next year. Officials hope that the yellow symbol on a blue background will raise public awareness about the euro. Tomorrow at the EU summit in Dublin, the European

Monetary Institute will unveil the designs for the euro notes which are expected to come into circulation in 2002 when the final switchover to the single currency union akes place. The Commission acknowledged yesterday that the new logo would not necessarily appear on the notes. sels believe failure to reach a

deal would signal a shift in German negotiating tactics. The Irish presidency and the excessive budget deficits "All the elements of a deal European Commission after they join economic and are there," said one diplomat. "If Chancellor Kohl "political deal" ahead of countries consider the Ger- does not support it, he is more constrained by public The chief obstacle to a Senior diplomats in Brus- opinion than we thought."

Germany has said that only an annual fall in gross domestic product, of either year-on-year drop of 2 per cent, should constitute the "exceptional circumstances" allowing a country to escape

bankers and national treasury officials were discusspresumed guilty, though the

ing a compromise meeting most German demands. Countries running budget deficits of 3 per cent which suffer an annual fall of GDP up to 1.5 per cent should be

Council of Ministers "should

not have its room for politi-

cal appreciation (of a coun-

purely quantitative criteria", adding that almost all other

aspects of the stability pact

Last night in Brussels, offi-

cials from the EU's mone-

tary committee of central

were agreed.

ket, according to a report published yesterday by the investment bank SBC Warburg. As companies take advantage of the absence of foreign exchange risk and lower levels of interest rates. it says, they may rely less for their financing on bank loans and issue more bonds.

a recommendation by the

Commission. Germany could

also expect a political decla-

cipline at the next EU sum-

Richard Lapper adds: Emu

will be a catalyst for the con-

tinent's corporate bond mar-

mit, in Amsterdam.



cit beyond 3 per cent of GDP. final decision would be made
A French official said the by ministers on the basis of

try's recession] reduced by ration supporting fiscal dis-

UK in Santer's sights again and at the same time resist is due to consider draft revi- reform are the keenest sup-

Commission chief says no enlargement without EU reform

By Caroline Southey in Strasbourg

Jacques Santer. president of the European Brussels was intent on conference. But the Commis-Commission, yesterday destroying national sover- sion has grown frustrated implicitly accused Britain of blocking the Union's that the EU should revert to IGC's slow progress. enlargement ambitions by a mere free-trade zone. taking a minimalist way the EU operates.

said that countries could not of Dickensian sweatshops. central and eastern Europe starting in Dublin tomorrow firmly against institutional tial Union".

reforming EU institutions.

The speech reflects Mr of criticising in recent

The two-day summit

sions to the Maastricht porters of enlargement," Mr He also attacked British treaty negotiated in the cur-Eurosceptics for suggesting rent inter-governmental eignty, dismissing the view with what it considers the

taken a hardline stance over approach to changing the Santer's hardening attitude many of the proposed alone" and that the EU was towards the UK government, reforms, including a blanket In a speech to the Euro- which he has made a point refusal to accept any exten- sovereignty. On the conbefore the EU heads of goy- weeks. He implied in one voting and its resistance to strengthen sovereignty in ernment meet in Dublin, he speech that it was in favour incorporating the social the world of today and chapter into the treaty.

Santer said, "But those who oppose reforms are inevitably slowing the acceptance of the first new members." Addressing himself to

Eurosceptics in the UK, he Britain has generally argued that "no member state is capable of acting "not the enemy of national tomorrow can only do it "Those who are most with a strong and influen-

EU summit will have a populist flavour

Heads of government will concentrate on what touches their citizens, writes Emma Tucker

elling "Europe" to its by police and judicial citizens has never been authorities. the strong point of the political leaders who gather in Dublin tomorrow.

But in an effort to show the European Union is not ises into reality. iust about harmonisation directives and competition policy, the Dublin summit of veto to block significant EU heads of government will advances, unwilling to cede have a populist flavour.

The buzzwords will be drugs, terrorism, organised crime and above all, the free movement of people. The leaders are looking for something which people

can identify with and these seem to be areas that correspond with public pre-occupations," commented an EU Last week, the Irish presidency unveiled proposals to

turn the Union into a borderfree area in which people can move about freely and safely.

This would be done by removing frontier controls between member states, and (ul) cross-border co-operation

THE HIVANCIAL TIMES THE HINANCIAL TIMES
Published by The Francial Times (Europet GmbH. Nibelimpemplar J. 60/18 Frankfurt am Main. Germany. Telephone ++44 (v) 156 850, Fax ++30 tol 596 4481. Represented in Frankfurt by J. Walter Brand, Withelm J Brüssel, Colm A. Kennard as Geschäftelister and in London by David C.M. Bell. Charman, and Alan C. Miller. Deputy Charman Shareholders of the Francial Times (Europe) GmbH are: The Financial Times (Europe) Ltd., London and F.T. Germany Advertising) Ld. London E.T. Germany Advertising) Ld. London Shareholder of the above mentioned two companies is: The Financial Times Lamoted. Number One Southwark Bridge, London SEI 981.

GERMANY: Responsible for Advertung: Colin A. Ken-nard. Printer: Hinriyet International Ver-laggesellschaft inhelt. Admiral-Rosendahl-Strates 3a, 62/263 Neu Isenburg ISSN 0174-7363. Responsible Editor. Richard Lam-bert, els The Financial Times Limited. Number One Southwark Bridge, London eert odd.

FRANCE Publishing Director: P. Maraviglia, 42 Rue La Beétic, 75008 PARIS. Telephone (01) 5376-8253. Fax (01) 5376-8253. Punter: S.A. Nord Eclar, 1521 Rue de Caire, F-59100 Rophan Cedes 1 Editor: Richard Lambert, ISSN 1148-2753. Commission Parliaire No 6/7808D. SWFDS%

Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen. PO Box 6007. 5-550 06. Jöcköping.

O The Financial Times Limited 1996.
Editor: Richard Lambert, co The Financial Times Limited, Number One Southwark Bridge, London SE 19HL.

The idea is enshrined in the 1986 Single European Act, but little progress has been made in turning prom-This has largely been

because Britain has used its sovereignty over immigration, asylum, visa and frontier controls and criminal justice matters. But now integrationist

leaders led by Germany's Chancellor Helmut Kohl, confident the public is more interested in safe streets than abstract notions of sovereignty, have decided to give the neglected area a high-profile push, making it central to proposed revisions to the Maastricht treaty.

Ireland, as host, has a special interest. The country has suffered from a spate of drug-related crime. Public outrage reached a crescendo last summer when a journalist investigating the drugs mafia was assassinated by

hired gunmen. The Irish have won strong backing from the French and the Germans, the EU's most their own problems of terror- and a central judicial role for still responsible for their and spoke warmly of Britain out.

Timetable for Dublin

Today: Finance ministers meet to iron out a deal on the single currency stability pact.

Heads of government open two-day summit to discuss monetary union and the inter-governmental conference to revise the Maastricht treaty.

EII leaders meet their counterparts from central and eastern Europe to discuss the strategy for enlargement and complete drafting of a final communique from the summit.

ism, drug trafficking and car the European Court of Justheft, they are pressing for closer co-operation on justice

and home affairs. In a letter sent this week to the Irish EU presidency, Mr Kohl and President Jacques Chirac of France mapped out new goals for a gradual harmonisation of member states' laws against

organised crime. The plans are similar to the Irish draft text for revision of the Maastricht treaty. Its main tenets include creation of one external EU border in which everyone can have confidence and the sub- to do so. sequent abolition of internal borders: a common visa list: visa list exists. But in the the need for Britain to work common rules on asylum; absence of one external bor- closely with its partners on the only logical way forward

tice. The draft suggests setting an overall target date of January 1 2001 to complete

the legislation. Some of these are already in place. For example, a core group of EU countries has agreed to suppress frontier known as the Schengen

Though this has not worked perfectly, with France insisting on keeping its checks in place, it has at least allowed those countries that want to co-operate more his counterpart in Germany

Similarly, a common EU increased police co-operation der, and with member states matters relating to crime may simply be to leave

own border checks, many people arriving from non-EU countries require separate visas for each EU country they visit. The question confronting need to "sign up for lots of

the EU leaders is how to text". achieve this vision for an "area of freedom and security". Virtually all countries, except for Britain, and possibly Denmark, are quite clear on what needs to be done. They want to abandon existing arrangements which intelligence agency - for

require governments to reach decisions via a consensus, allowing one country to stall progress for as long as it wants.

today's loose system of made it clear it would

In its place they want a tighter regime, under which decisions are taken by qualified majority votes, and the Commission is given the right to initiate legislative

co-operation is all that is Mr Michael Howard, Brit- that a Labour government ish home secretary, meeting this week, was uncharacteristically enthusiastic about

achievements already made However, he emphasised that this could only be on the basis of "practical co-operation", without the

Britain's case is weakened by the fact it has time and again used its veto to block initiatives. For example, British reservations delayed the adoption of Europol -Europe's cross-border police more than a year. A convention for establish-

ing one external border

remains on the table because of British problems over Gibraltar as well as objections to giving the European Court of Justice a role as arbiter in its administration. The hitch is that to make any changes to the treaty. unanimity is required. Of The British line is that course, Britain has already

> oppose the changes. The hope in Brussels is under Mr Tony Blair would be more flexible

But given Britain's traditional sensitivities to border controls and immigration,

Germany promotes capital markets

By Andrew Fisher in Frankfurt

A new campaign to overcome the "image problem" of Germany's capital markets and strengthen them ahead of European monetary union was launched yesterday by leading German bankers, businessmen and securities officials.

Mr Rolf Breuer, a director of Deutsche Bank who will become chairman in May, said German markets were "better than their reputation" in terms of products, technology and efficiency. He denied what he called "myths" still circulating abroad about lack of innovation, domination of trading by German banks, insider trading and inability to undertake big global share issues.

Ϊ.

sche Telekom share issue had shown Emu area. what could be achieved in the German new issues market, Mr Breuer added. Moreover, statistics showed that foreign banks had a big share of transactions on German securities

and futures and options exchanges. Mr Breuer, who also heads the supervisory board of Deutsche Börse which runs the Frankfurt securities exchanges, said Germany's financial markets should move into "the first division". This would be even more important after Emu, when international investors and issuers of securities would look beyond their own markets to find the best trading centres for euro-denominated products.

The record DM20bn (\$13bn) Deut- pare more intensively for the post- Hoechst and Lehman Brothers, the "We have an image problem," Mr

ceeded in putting our arguments campaign - not limited to Frankfurt, Germany's dominant securities trading centre - would work towards improving the country's financial market image and achieving further reforms. This will be done through a newly

founded Finanzplatz (financial mar-

ket) association. Apart from Mr

Breuer, founding members of this

task force include Mr Werner Seifert

US investment bank. Breuer added. "We have not suc- to start in 1999, would lead to consid-

Mr Breuer stressed that Emu. due erable concentration among finanacross effectively enough." Thus the cial markets, not least on cost grounds, as interest rate and currency risks were removed for those investing across Europe. Thus Germany still needed to make considerable efforts to compete against France, which has been heavily promoting its own financial market attractions, and the UK.

London would retain its importance after Emu, regardless of whether the UK was in at the start the chief executive of Deutsche or not The City had a huge reserve Borse, and directors of Dresdner of financial talent "which puts us Germany needed, therefore, to pre- Bank, Commerzbank, Siemens, and the French deep in the shade".



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Eastward expansion 'could be posipular.

Hopes for EU growth by 2000 'very optimistic'

accelerate the transform tion process."

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2000 appear "very optimistic", according to a report by the United Nations Economic Commission for Even assuming smooth negotiations and speedy ratification; the most advanced of the "transition" econoblem to the manager mies would be unlikely to join "before the middle of the next decade". The ECE acknowledges the achievements of many

> to be done before they can function as full members of The commission also warns that little headway can be made on enlargement

By Ralph Atkins in Bonn

and Frederick Stüdemann

yesterday claimed to be lead-

ing the world in regulating

multimedia when it outlined

proposals for a federal law to

protect data as well as safe-

guard against pornography

Mr Jürgen Rüttgers, minis-

ter for science and educa-

tion, said the legislation

would become a "pace-

maker" in the future world

of multimedia, where mov-

ing images, data traffic and

proposals would encourage

investment in multimedia

while also protecting con-

The draft multimedia law

confusion which could have

deterred companies from

sumers and their data.

and other abuses.

east Europe countries since

1989, but says much remains

Predictions that some of the

more advanced economies in

east Europe might enter the

European Union by the year

inter-governmental conference (IGC) on reforming the way the EU operates.

If the IGC fails to deal effectively with the big problems facing the Union. especially those affecting the process of decision-making and the effectiveness of the present institutional structure, the accession of east European countries "could be postponed indefi-

nitely", Such an outcome would pose "considerable risk of negative effects" on the development of both market economies and new democratic institutions in east

Europe. The ECE says east European countries see membership of the EU as crucial for sustaining the process of

liberalisation of the coun-

try's telecommunications

system from January 1 1998.

approved by parliament -

make clear that multimedia

encryption has yet

to be established,

as there is still no

consensus on just

should be covered by federal

legislation rather than at

Länder (state) level. This

companies which offer ser-

vices such as telephone

how secure such

An international

standard on

The German government posals - which have to be

sound will converge. The systems should be

attempts to clear up legal should avoid multimedia

offering new products and shopping or access to infor-

A central plank of the pro-

and development between east and west. Even more important, it is seen by most policymakers in east Europe as a way of underpinning new democratic institutions

the region. The ECE questions the capacity of central European countries to compete within the single market without instituting further far-reaching reform. Considerable efforts will be required in the region for accession to be feasible "even by the middle of the next decade".

"For the economies in transition it is not obvious that they can, or even that they can afford to, narrow the gap sufficiently between what is demanded by the Union's rules and what they integration with western are able to deliver in just a market economies and ach- few years' time, unless strenof the EU until existing leving long-term rates of uous efforts are made to market."

welter of complex local regu-

excessive bureaucracy.

lations.

The ECE argues for a longer pre-accession period to give candidate countries more time to restructure their economies "to participate as equal partners in the and increasing security in highly specialised and sophisticated division of labour prevailing in the EU".

It says it is an illusion to believe that such changes can only be achieved by rapid entry into the EU. Many advantages of membership, such as access to the single market, economies of scale and direct invest ment by western companies,

could be achieved before "A rushed and premature entry of the transition economies into the EU is unlikely to be in their longer-run economic interests, if they are unable to face full-fledged competition in the single

Bonn outlines multimedia law

tection legislation would

Under German law the also extend to multimedia. Mr Rüttgers has in the Länder are responsible for regulating broadcasting. past proposed an international agreement on tracking Given the televisual nature of much of what is known as down and prosecuting multimedia, some Länder offenders, given that such argued that their authority material can originate from should be extended to it. around the globe.

This was rejected by both Also unresolved are issues Bonn and nearly all commerconcerning encryption of cial operators, which feared data for security purposes. An international standard The Länder will retain on encryption has yet to be responsibility for convenestablished, as there is still tional broadcasting and dis- no consensus on just how cussions between the federal secure such systems should and state governments are

expected to continue over Law enforcement agencies "grey areas" where the borhave argued that almost der between conventional totally secure systems would and new services is unclear. hamper criminal investigations. Others argue that data A further key element of protection, necessary for the proposed law is the extension into cyberspace of both secure commerce and laws governing the printing personal civil rights, can and distribution of proonly be guaranteed by the maximum level of encrypscribed matter, such as child services, particularly after mation having to deal with a pornography or neo-Nazi tion.

By Matthew Kaminski in Kiev ment in June.

Mr Leonid Kuchma, the Ukrainian president, has he may regret the departure sacked his closest adviser, in of his most loyal adviser. a move aimed at bolstering his weak political position. The removal of Mr Dmytro Tabachnyk as chief of staff follows persistent calls in parliament for his resignation and attacks in the

Even former presidential allies in the chamber have turned on Mr Kuchma for allegedly condoning corruption in his administration. Mr Kuchma, who has culti-

vated an image in the west as a proponent of economic reform and Ukraine's sharp turn toward the west, has been politically embattled at come to dominate govern- ger the position of Mr Sergei bies.

home after getting a new constitution through parlia-

Embattled Kuchma sacks aide

Analysts in Kiev believe who ran the president's 1994 campaign, as divisions within the government widen ahead of election cam-

paigns in the next two years. Mr Pavio Lazarenko, the prime minister, has emerged as a potential challenger for the presidency after accumulating economic power through control of the lucrative energy sector. His relations with Mr Kuchma have been strained.

Mr Tabachnyk was not linked with the prime minister's group of advisers from Dnepropetrovsk, who have



Kuchma: weak position

ment since Mr Lazarenko's appointment in May. His departure may endanOsyka, the minister of foreign economic relations, and other cabinet members associated with the Kiev-based political and economic establishment.

The president's support in parliament is diminishing as the chamber begins to discuss the 1997 budget and a packet of unpopular economic reforms needed for

western aid next year. His aides have been concerned the Communists and Socialists are gaining strength with the growing disenchantment over economic weakness ahead of 1998 parliamentary elections and as Mr Lazarenko broadens his parliamentary base of support among the agricultural and industrial lob-

Jewish land claim Swiss urged to make amends in German court for Nazi ties

Switzerland yesterday came under renewed pressure to make amends for the country's financial dealings with

Nazi Germany, as the head of the World Jewish Congress issued an the relatives of Jews who sent assets to Switzerland during the Holocaust, Patti Waldmeir reports from

Washington. Mr Edgar Bronfman, one of the most prominent spokesman for world Jewry, told a House committee investigating the "Nazi gold" issue that a full investigation would take too long, and many Holocaust victims

would die before it was completed.

"The time has come for the competent authorities to make a good-faith financial gesture – one that does not prejudice the outcome of any final settlement – so that those who have suffered so much may yet see in their lifetime some measure of justice done." he said.

A Swiss government spokesman told the House banking committee his government would press ahead swiftly with a probe of Switzerland's wartime role, completing it within two to three years. But Jewish groups fear this could stretch to five years.

The Swiss parliament yesterday gave final approval to a law which will lift bank secrecy laws on the relevant accounts, allowing the Swiss investigation to begin in January. The Swiss government wants to await the result of that probe before deciding on

payments to survivors.

By Frederick Stüdemann in Berlin

A Jewish family who claim they were forced by the Nazis to sell their land near Berlin will today seek to reassert one of the largest restitution cases in eastern Germany.

At issue today are 11 properties in Teltow, a town on the southern fringes of Berlin, part of an 84-hectare site which once belonged to two businessmen. Mr Max and Mr Albert Sabersky. The decision on the properties is seen as a test case for the much larger

site which now makes up the leafy Seehof district of Teltow of 530 houses: the whole site has a market value of over \$100m. The prospect of a whole suburban district changing hands is remarkable,

even by the standards of the restitution process in eastern Germany which has seen countless properties returned to former owners. In extreme cases, such as Teltow, whole villages or districts have been subject to ownership disputes. In Seehof the Sabersky claim has created

owners who are unable to use "their property as collateral. Seehof was created in the 1930s when farmland the Sabersky bothers bought in 1878 was divided into plots and sold

anger and uncertainty among home-

Today the houses are largely pripeople who bought in the 1930s.

The heirs of the Sabersky brothers. led by Mr Peter Sonnenthal, a US lawyer, claim that the family was pressured into selling below market value and never received the full sum of their ownership when a court considers money from the sales, which were handled by an estate agent who was a member of the Nazi party and received an unusually high commission.

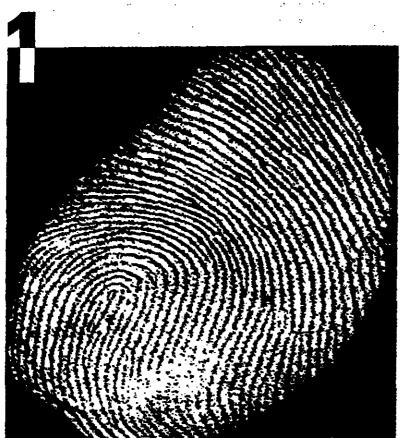
Under German law, property owned by Jews which was expropriated by the Nazis or unfairly sold between 1933 and 1945 is subject to restitution.

The heirs have said that if their claim is recognised they will not force anyone out of their homes. In August they also made a settlement offer to inhabitants to "buy back" the claims for a relatively small amount. Lawyers acting for the heirs say 60 people have so far accepted the offer and 90 more

have expressed interest. The family's claim is opposed by the Office for the Settlement of Property Questions (Arov), a local government agency set up to deal with restitution cases, which says that the Sabersky family had planned to divide up the Seehof site long before the Nazis came

to power in 1933. Arov also believes a fair price was paid for the plots.

This year Arov rejected the Sabersky claim to Seehof, though it granted restitution for a number of properties which had been directly occupied by the family and which the agency vately owned, many by descendants of acknowledged had been sold under



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Hong Kong scales down rail ambitions

By Louise Luces in Hong Kong

The Hong Kong government yesterday scaled down its plans for the ambitious Western Corridor Railway linking the territory's Kowloon peninsula with China, after months of haggling with Beijing over the project's cost.

Beijing, whose approval for the project is required as its construction straddles would go shead, the crossthe handover next July when Hong Kong reverts to delayed. This would shave

Chinese sovereignty, said costs by a third. the estimated cost at HK\$75bn (US\$9.7bn) was too expensive. Chinese officials were further irked by Hong Kong's failure to keep them briefed on contractors and developments.

Yesterday Mr Gordon Siu. the territory's secretary for transport, said that while the passenger line from Kowloon to the more remote north-west New Territories border railway would be

"We are still some way from reaching any definitive conclusions on the development and timing of the new rail border crossing," he

Thus the governmentowned Kowloon-Canton Railway Corp (KCRC) which is carrying out the project will face costs of HK\$50bn rather than the HK\$75bn estimate. Around half of that will come from government

Under the revised blue-

print, construction of the railway extension will begin first big infrastructure projnext summer, and the first phase could be completed by delays brought about by mit a proposal for the con-

Originally, the three-section project was to have been completed by 2001. train link is vital, and that the total cost rose as the project was expanded. In July Mr Siu underlined the after protracted wrangling government's commitment over the make up of to the scheme in the Legislative Council, stressing it was build and develop it.

"a priority project".

ect in Hong Kong to suffer rows between the two governments. The territory's new airport at Chek Lap Kok, now scheduled to open Hong Kong has argued the in 1998, was hit by a row over financing, and a deal on the extension of the port was

only signed earlier this year over the make-up of the consortium that won the bid to

The railway link is not the way was first mooted in 1994. In January last year the KCRC was asked to substruction and operation of the rathway. The KCRC's feasibility study was handed over in November last year.

Separately, the KCRC yesterday announced that Mr Yueng Kai-yin, a former treasury minister and latterly director of Sino Land, a property developer, would succeed Mr Kevin Hyde as chairman.

Uncharted territory, Page 13

Hashimoto set to ride out wave of scandals

William Dawkins on the cracks in Japan's iron triangle of bureaucracy, politics and business

loosening that hardly a day es by in Tokyo without a top bureaucrat or politician being embarrassed by claims of financial impropriety. Routine recent fare on television news includes policemen marching into shortened list includes:

ministries to carry out crates • Mr Hashimoto admitted of incriminating papers, on Tuesday he had received bureaucrats being driven off Y2m (\$17,600) of - legal to prison and pink-faced politicians bowing in atonement for being found out.

Collusion and kickbacks in the iron triangle of business, bureaucracy and politics were, within limits, tolerated for much of the post-war era. They have suddenly become less acceptable, though only a bit. This is no crisis and from a businessmen seeking does not look like bringing the string of resignations brought about by accusations of sleaze in the UK gov-

Surprisingly, Mr Ryutaro administration seems little harmed by charges of venalcratic party (LDP).

There have, admittedly, groups run by the same brobeen signs of strain. Mr ker. Shinji Sato, minister for • Police last month raided international trade and the offices of an organisaindustry, was unable to tion, Orange Co-operative, think tank. attend the World Trade suspected of falsely posing One crack

It is a sign of how the old Organisation ministerial as a savings bank. Orange ties that bind Japan's summit in Singapore be-had donated Y30m to former cosy power structure are cause he had to face parliamentary questions over corruption among Miti officials.

Even so, foreign observers could be forgiven for surprise that the government is so little affected, given the sheer weight of evidence. A

political donations from a hospital linen leasing group after it had got an official warning against violating anti-monopoly laws. He is considering returning it. ● A former top health ministry official was arrested last week and charged with accepting Y60m in bribes

state subsidies to run old

people's homes.

 Miti last week punished six top officials for accepting lavish hospitality from an oil broker, recently arrested for Hashimoto's minority evading tax on commission from questionable deals. Senior members of both the ity among senior members of LDP and opposition New the ruling Liberal Demo- Frontier party (NFP) admit taking donations from lobby

prime minister Mr Morihiro Hosokawa for his election campaign in October. He promptly returned the cash.

Judging by Japanese media coverage of these events, the public is disappointed but not shocked. Allegations against officials, once held to be above suspicion, are new, but again not Y2m (\$17,600) of - legal - surprising. "This is business as usual. The public has always assumed that this kind of thing has been going on," explains Mr Dan Harada, a political consultant.

If this is routine behaviour, why are the police only now choosing to act against it? One factor, political observers speculate, is that public prosecutors discreetly held off in the run-up to October's general election. Another factor is that old

alliances have turned sour. "Some of the bureaucrats have probably been corrupt for decades. They became greedier in the late 1980s bubble economy, and may have overstepped themselves. Since then the iron triangle has started to disintegrate," says Mr John Neuffer, political analyst at Mit-Marine Research Institute, a private sector



After recent raids and revelations Hashimoto (left) and Sato hope to ride out the storm

is Mr Hashimoto's election commitment to trim the size and power of the bureaucracy. That pledge is especially significant coming from Mr Hashimoto of all people, a former finance minister, celebrated in Kasumigaseki - Japan's Whitehall – for his skill at working with bureaucrats.

Hashimoto's administrative reform plans have aroused hostility from those who risk losing status, or even a job. In Japan, more than in most places, a successful leader

ter, once wrote. That invites the question of whether Mr Hashimoto or his government could be unsettled or even toppled by scandal. For now, he is cure. He has won praise, and deflected attention from politicians, by calling for a code of conduct for bureaucrats. And even if Mr Hashi-Not surprisingly, Mr moto were to be implicated, there is no clear alternative

Second, the opposition NFP has neither the stomach nor power to challenge the government. Too many must have no enemies, as an of its own top people – adviser to Mr Kakuei Tan-mostly former LDP men – One crack in that triangle aka, a former prime minis- are caught up in the same

corruption cases. Worse, the NFP is about to split, with the defection of Mr Tsutomu Hata, another former prime minister, and his supporters. The main risk from

Japan's rash of scandals, warns Mr Neuffer, is that the Hashimoto team might get side-tracked from urgent matters such as economic deregulation. In the long run, the controversy helps those wishing to make government more transparent and efficient. But in the short term Mr Hashimoto and others with an interest in a more open Japanese economy must be cursing

ASIA-PACIFIC NEWS DIGEST

Weak yen lifts Japan exports

The decline in Japan's current account surplus continued to bottom out in October, as a weak yen helped to lift exports of manufactured goods, according to official data

The current account gap shrank 19.6 per cent to Y367.4bn (\$3.25bn) in October compared with the same month last year, a bigger contraction than the market had expected, but significantly slower than September's 35.6 per cent decline, the finance ministry reported. It has now been on the decrease in almost every month since December 1994, broken only by one month's increase in August last year. But the October fall was the smallest in seven months, because of a sharp rise in car exports.

Within the October total, Japan's trade surplus in goods and services fell 11.6 per cent to Y11.2bn, the 23rd monthly decline in a row, but the smallest October surplus since the ministry started collecting trade figures in this form in 1985. The merchandise trade surplus fell by 11.7 per cent to Y669.1bn, while the deficit on services rose by 9.1 per cent to a record Y657.9bn, on a William Dankins, Tokyo

Loan pledges for Philippines

World Bank donor countries meeting in Tokyo yesterday pledged loans and grants of \$2.9hm to the Philippines for 1997, a slight increase from \$2.8hm last year.

Delegates to the 20th consultative group meeting, an

annual forum of donors to the Philippines chaired by the World Bank, praised the country for its fifth successive year of rising economic growth. From 0.5 per cent in 1991, gross national product growth had risen to 7.1 per cent for the first three quarters of 1996. Mr Javad Shirazi, director of the World Bank, welcomed the Philippines' "robust growth and buoyant investor confidence

Inflation had fallen from double-digit levels, foreign exchange reserves had improved significantly and exports for the year had outstripped the performance of wealthier east Asian economies.

Delegates called on the Philippine government to strengthen its resilience to external shocks, an implicit criticism of the Philippine's rising trade and current

For the first six months, the Philippine central bank said the trade deficit rose year-on-year from \$4.88bn

Chavalit plans spending curb

Thailand's new prime minister, General Chavalit Yongchaiyudh, pledged yesterday to curb government spending and boost export revenues in an attempt to ease the country's current account deficit.

Presenting his government's policy platform to parliament Gen Chavalit said "unnecessary expenses and incompetent investments" would be targeted, staking his government's credibility on stabilising Thailand's slowing

That central bank officials said last week they expected the current account deficit to reach 8.3 per cent of gross domestic product, up from an already high 8.1 per cent last year, mostly due to slowing export growth.

Poor export performance has also hurt overall economic growth, which after a full decade of growth above 8 per cent annually is expected to be just above 6 per cent this year, a slowdown that has shaken financial markets and. combined with the current account deficit, put pressure on the currency. Ted Bardacke, Bangkok

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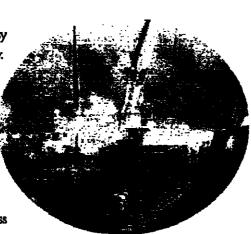
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Australian dollar falls after interest rate cut

By Nikki Tait in Sydney

The Australian dollar fell news of the Reserve Bank's per cent. Shares ended little reduction of the cash rate changed, with the all-ordinaries index 2.5 points lower cent. The currency fell by about one US cent, closing the day at around 79.15 US cents. Ten days ago it had reached a six-year peak at more than 83 US cents.

Financial markets were surprised by the cut, the third this year. Although most analysts said the slowing rate of economic growth had been helpful in quand low inflation data might inflationary pressures. offer scope for an easing of rates, few expected a move

before 1997.

Suggested the August budget ment wants to sell one-third
Bond prices rallied, inflation forecasts for of the telecoms group
although they closed below 1996-97, of 2.75 per cent, through a stock market flo-

the benchmark 10-year bond ended at 7.18 per cent, down fairly sharply yesterday on from Tuesday's close of 7.35

The Reserve Bank said the easing was a response to the improved inflation outlook. It said the "underlying" inflation rate was expected to stay below 2.5 per cent for the rest of the 1996-97 financial year. It also noted the

recent strength of the dollar had been helpful in quelling In Canberra, Mr Peter Cos-

tello, federal treasurer,

the day's best. The yield on could be undershot. "We actually think there's a possibility of doing better," he

> yesterday introduced a 'Charter of Budget Honesty bill into parliament, which would require any government to release details of the country's budgetary and economic position at the start of each election campaign, as is the case in New Zealand. Parliament yesterday finally passed legislation

> which will allow the partial privatisation of Telstra, the government-owned telecommunications carrier, to go ahead. The federal govern-

Meanwhile, Mr Costello

biggest share offer in the country's history. Australia is also in the process of moving to a fully deregulated telecoms market by July next year and any sale of Telstra is likely to

occur after this. Page 25; World stock

Canberra acts on petrol prices

By Nikki Tait

Australia's conservative federal government announced yesterday it would seek undertakings from the major oil companies to provide "open access" to their terminals, as part of a plan to deregulate the country's petrol industry.

It said that, after industry consultations, it was satistition and removing unnecessary regulation in the petroleum products industry is the best way of achieving lower prices for consumers". "Deregulation and strucmanner over the next few years," it added. Efforts would also be made

over the next 12 months to negotiate a new enhanced "ollcode" and code of conduct between oil companies, distributors and retailers. The Canberra government said it was "disposed" towards repealing legislation that governs petrol franchising and retailing arrangements, and restricts the number of petrol stations big

players can operate. Meanwhile, petroleum products would be removed from price surveillance once the federal treasurer was tural change in the sector sure of "pro-competitive"

prices and requires the four big suppliers to notify the Australian Competition and Consumer Commission (ACCC) if they want to

increase them. But the proposals were criticised for being "too slow" by Ampol, the country's largest petrol distributor. Ampol broke ranks with Shell, BP and Mobil several months ago when it started publishing its wholesale petrol prices. It has also promised open access to its terminals once prices are

The pressure for change follows an inquiry by the introducing petrol pumps at will proceed in an orderly developments. The current ACCC earlier this year. Part up to 200 stores.

discrepancies between city and country petrol prices, which, it is claimed, handi-

cap the farming industry.
The ACCC concluded that current price surveillance ineffective in restraining prices and that competition from independent fuel retailers was more likely to be an effective price dampner. At present, independents account for only about 5 per cent of the market However, Woolworths, the country's largest supermarket chain, has recently started selling petrol at one retail site, and is looking at

India and Bangladesh reach water deal

By Kasra Naji in Dhaka and Mark Nicholson in New Delhi

India and Bangladesh last night reached agreement on sharing the waters of the Ganges River, settling a dispute which has been the between the two neighbours for more than 20 years. "I wish to place on record

my profound satisfaction at

the agreement we have just

Delhi with Sheikh Hasina, Bangladesh's prime minis-The agreement, to be signed today, represents a

significant foreign policy success for Sheikh Hasina's chief bilateral irritant 10-month-old Awami League government, and is the first example of the Indian United Front (UF) government's policy of greater "generosity" towards its smaller neighreached on the sharing of bours. Though no details of struction of the Farakka by Mr Jyoti Basu, W the Ganga waters, Indian the pact were immediately dam in 1975, with the aim of gal's chief minister.

Prime Minister H. D. Deve available, Bangladesh was diverting water to the Indian Gowda said after talks in hoping to increase its share state of West Bengal, partly of Ganges water during the to "flush" the state's silted "lean" post-monsoon season from late December to June. Dhaka claims the diversion of the water has hurt the

livelihoods of 30m farmers. Bangladesh has been in dispute with India over its share of Ganges water -

port at Calcutta Dhaka has alleged that

India opens the barrage at Farakka during the wet monsoon months of June September, flooding Bangladeshi land downstream. It has also argued that India which flows through north- then staunches the flow durern India before emptying ing the dry season. This into the Bay of Bengal in week's visit by Shiekh Has-Bangladesh - since the con-struction of the Farakka by Mr Jyoti Basu, West Ben-

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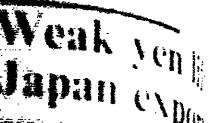
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EU urged to trade Kepco wins more in east Asia power

By Neil Buckley in Brussels

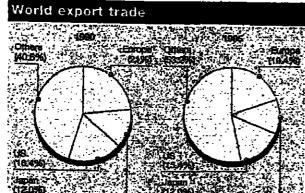
Europe should adopt more adventurous trade and investment policies in the fast-growing markets of east Asia to stem a decline in its share of world exports, according to a report of European Union experts on enhancing competitiveness.

The EU should also avoid protectionism in favour of encouraging multilateral opening of trade, and should enhance the effectiveness of the World Trade Organisation - including making the entry of China a priority.

The last of four studies by the EU's competitiveness advisory group, appointed by Mr Jacques Santer, European Commission president, to examine the EU's competitive position, warns that Europe has been "performing below its full potential" in global trade.

While the first three reports looked mainly at internal policies, the final report, to be presented by Mr Santer to tomorrow's Dublin summit of EU leaders, focuses on the Union's international trade and invest-

lt warns Europe's position in recent years has deteriorated, with merchandise trade with non-EU countries falling from 22.6 per cent of EU gross national product in 1983 to 18.6 per cent a decade



Over the past five years the EU's share of total world exports has fallen by a bigger proportion than that of the US, while Japan has held also important.

"Asia is still seen as an its share. The total Asian share of world trade, meanwhile, has increased from 12.8 per cent to 18.9 per cent. One reason for the poor EU performance is that the proportion of its exports

going to the fastest-expanding markets, in south-east Asia, was only 11.9 per cent, Asia. EU direct investment against 14.4 per cent for the US and 29.6 per cent for in the region was "negligi-Japan. The EU still relies on investment there jumped historical markets such as Africa, central and eastern 18.8 per cent in 1994. Europe, and the Middle East,

which are growing more While Japan and the US ogy, the report adds, have geographical advan-reflecting a well-known failtages in investing in Asia, ure to translate scientific Mr Percy Barnevik, chair- research into applications.

man of Swedish engineering group ABB who chaired the group, said attitudes were

exotic, foreign location by many companies," he said. "This is not a government problem. We have to get out there, get our students there, learn the languages."
Other problems included

reluctance by the EU to invest directly in south-east ble", while Japan's share of from 12 per cent in 1991 to EU countries, apart from

the UK, specialise too much in medium or low technol-

Prospects improve for WTO telecoms accord

By Frances Williams and Guy de Jonquières



The prospects of a World Trade Organisation deal to liberalise global tele-

communicaimproved offers to open their markets to foreign competi-

Trade officials attending the WTO ministerial meeting in Singapore were particularly encouraged by a statement from Indonesia, which has been reluctant until now to enter the negotiations. that it would "seriously consider" submitting an

The participation of Indonesia, along with that of Malaysia, is seen as essential because it is potentially one of Asia's higgest telecoms

needed to achieve the "critical mass" for a successful deal by the deadline of February 15. "If Indonesia comes in, I think Malaysia will come in," one trade official

tions rose by South Africa, Egypt, Bar- were originally due to end, yesterday when a cluster of bados and Jamaica. These and "there is not much left," important countries said will be presented in January a government spokesman resume in Geneva, together with improved offers from Canada, Singapore and South Korea.

South Korea has apparently indicated it may raise limits on foreign ownership of domestic telecoms companies (excepting Korea Telecom) from 33 per cent to 49 per cent after 1998, and will permit 100 per cent foreign ownership of voice resale

companies after 1999. Trade officials also expect Canada to raise foreign ownent 20 per cent, while Singamarkets. The US has said pore will incorporate its Singapore.

these two countries are recent decision to remove Singapore Telecom's monopoly from the year 2000.

However, Japan earlier dampened expectations that it would increase the 20 per cent limit on foreign ownership of the two main carri-At an informal meeting of ers, NTT and KDD. Japan ministers chaired by Can- had done almost all it could ada, new offers were pledged last April when the talks

Meanwhile, the US and EU were still trying to finalise details of a proposed agree ment to free trade in information technology products, which Japan and Canada are also expected to back.

Hopes of clinching the deal will depend on the strength of participation by other WTO members, about 20 of which have expressed interest. Although not all are expected to sign up this week, they are under strong US and EU pressure to comership limits from the pres- mit themselves in principle before their ministers leave

It's a funny old World Trade Organisation

Guy de Jonquières reflects on the interminable haggling at the Singapore ministerial meeting

fewer than 3m mostly ethnic Chinese inhabitants, boasts the world's biggest Father Christmas - complete with a dusting of snow on his beard. But as a surreal spectacle, it cannot compete with the World Trade Organisation's ministerial conference being held there this

inside a gleaming conference centre, legions of trade ministers, diplomats and officials have been labouring to promote the liberalisation of global markets. To many observers - and some candid participants - the proceedings often seem more like bureaucratic play-acting.

For most delegates, the main event is the cut-andthrust over what should appear in the ministers' final communique. Although the issue has already been debated to death in WTO preparatory meetings in Geneva, it has continued to keep committee rooms filled until late into the night.

Verbal battles have raged over the precise wording and even the punctuation of the statement. Diplomats have been passionately divided over such questions as whether it should contain a reference to "trade and competition policy" or to the altogether more suggestive competition policy and

not settled lightly - and when they are, further game is linkage - trading fashion."

of Singapore, with instance, is a subject suffishould WTO members agree, open to all members"?

consensus - the most precious word in the WTO vocabulary - they retire to bed pleased at a job well done. Quite why is not always clear to outsiders. chief spokesman struggled this week to convey trade negotiators' sense of shared achievement at having ended a lengthy quarrel over textiles trade by reaffirming binding commitments made by ministers almost three

years ago. Some issues of real substance hang on this apparently interminable haggling. It will determine, for instance, whether the WTO concludes an agreement to free trade in information technology products, or sets out to formulate global rules in areas such as direct investment, competition pol-

icy and labour standards. But much of the exercise consists of tactical manoeuvring and point-scoring by a tightly knit group of WTO what all these arguments diplomats, whose staple diet were about," says one vetof committee meetings in eran trade negotiator. "It is Geneva has left them chroni- hard to explain to the world

والمناب المنتب والمنطقين والمنابق والمستجورة والراوا

he tropical city-state heroic struggles await. For demands in one area for concessions in another. That ciently mature to be studied logic apparently dictated the by a working party, or intransigent public stance should it be remitted to a struck by many developing committee of experts? Or countries on contentious issues such as investment in a spirit of compromise, to and workers' rights. Such set up an "experts group opposition may then be softened in exchange for move-Once delegates reach a ment on, say, agriculture or textiles.

> But such tactics can verge on the frivolous. One WTO ambassador, who placed a reservation on one part of the communiqué, cheerfully For instance, the WTO's admitted that his government did not object to the text in question. He just thought it might be handy to have a bargaining chip up his sleeve. The most striking fact

> > about machinations over the communiqué is that much of its contents will only have a slender relationship to the WTO's future conduct. Though intended to set the broad agenda for the next few years, the communiqué will hind members to few specific commitments and at least some of these are likely to be open to differing interpretations.

"Whatever the communiqué says, it will have been largely forgotten by January, and in five years' time, nobody will be able to recall Such disagreements are cally addicted to negotiation, at large why grown-ups For many, the thrill of the insist on behaving in this

contest

The state-owned Philippine National Power Corporation, Napocor, has selected Korea Electric Power Company as the preferred bidder for the construction of the country's first 1,200MW natural gas power plant

Kepco beat five other offers with its bid of \$1.46bn based on net present value and a partial government guarantee. The project is the first build-operate-transfer (BOT) project to be awarded with a partial rather than a full government guarantee. The partial guarantee covers only specific Napocor obligations and, unlike a full guarantee which lasts for the duration of the project, is valid until the country reaches investment grade for two successive years.

The 20-year BOT project at Iliian is due to be completed by 2002 and is to be supplied from a natural gas field discovered by Shell Exploration and Occidental Petroleum in north-west Palawan. The government has promised a market of 3,000MW before these companies develop the field.

The bid result disappointed Cepa (Consolidated Electric Power Asia), the power subsidiary of Hopewell Holdings of Hong Kong which finished slightly behind Kepco with a bid of \$1.49bn. It won the original bid for the power plant in June 1995 but was subsequently disqualified for including technology developed by the US company Westinghouse, then on a blacklist for alleged involvement in the payment of kickbacks to win a previous con-Mr Giovanni de la Rosa

analyst at ING Barings, said the Kepco deal was Napocor's biggest to date with an independent power producer and it was likely to proceed "If the government backtracked on this one it would damage its reputation in a big way," he said.

Italians to rebuild railway

By John Simkins in Milar

Tor di Valle, a Rome-based construction company, has agreed a L5,000bn (\$3.3bn) barter deal to rebuild more than 1.300km of railway in Angola damaged in the country's civil war. In exchange the company has a 14-year licence to exploit 35,000 hectares of eucalyptus along the railway line.

The railway runs from Lobito port to the border with Zaire and forms part of the so-called Beira corridor line that runs from the Atlantic to the Indian Ocean through Angola, Zaire, Zam-bia and Zimbabwe to the port of Beira in Mozambique. The Italian foreign ministry said the contract was an important element of renewed Italian activity in the region.

Tor di Valle will supply 100,000 tonnes of rail and rebuild 45 metal bridges for the line, much of which was built at the beginning of the century. A total of 14.5m tonnes of timber will be exported to Italy for pulp or

OECD Export Credit Rates

The Organisation for Eco-Davelopment announced new minimum interest rates (%) for officially supported export credits for December 15 1996 to January 14 1997 [November 15 1995 to December 14 1996 in bracketsi.

5.92 (6.10) 5.71 (5.80) 5.96 (6.10) up to 5 years 5 to 8.5 years 8.22 (8.74) 6.76 (7.19) 6.88 (7.49) 2.50(2.50) 7.63 (8.02)

8.25 (8.02) 4.76 (4.82) up to 5 years 5 to 8.5 years

Unicef urges multinationals to adopt child labour code

Social Affairs Correspondent

NEWS: WORLD TRADE

United Nations Children's Fund has called on international companies to adopt more widely codes of conduct that prohibit the use of child labour by their suppliers in developing

countries. The move is one of a series of measures to eliminate child labour proposed in a report on the state of the world's children, published yesterday to mark the agency's 50th anniversary.

The study says that as many as 73m children aged between 10 and 14 are employed and nearly 400m are engaged in some form of

should honour the 1990 governments must take

Pooja, aged 5, carries paper and cloth scraps collected from

the streets of Calcutta for recycling. She will earn 30 US

the Child by extending legal them," it says. protection for children, providing more and better campaigns by labour unions, education and improving data collection and

The study acknowledges that some work - such as water-carrying – is the result of poverty rather than exploitation, but says dangerous work involving children should eliminated directly. "Hazardous ¯

labour.

exploitative forms of child labour, including bonded labour, commercial sexual exploitation and work that hampers the child's physical, social, cognitive, emotional or moral development must It says governments not be tolerated and

Convention on the Rights of immediate steps to end anti-child labour campaigns The report applauds indigenous companies in

consumer organisations and other groups, particularly in monitoring of child the US, which have forced international many companies to put pressure on suppliers who use child

> "Procurement policies must be developed to take into account the best interests of the child and include measures to protect those interests." it says. "Employers in the formal sector have successful models on which to base their efforts to eliminate child labour and shift from being a source of the problem to becoming part of

The report also says that

many developing countries as well as multinationals, "The challenge now is to

should be expanded to target

extend the notion of corporate responsibility for child labour - and the campaigning that can bring it about - to national companies," it says.

Last month, the World Federation of the Sporting Goods Industry drew up a code of practice aimed at eradicating child labour in the industry and several large retail groups have

The State of the World's Children 1997, Oxford University Press, Walten St.

Indian court orders action

in New Delhi

the solution."

India's supreme court has

cial fund to compensate and rehabilitate child workers. offending employers should and other trades. pay fines into the fund of Rs25,000 (\$714) for every child employed, and an additional Rs20,000 in individual compensation for breach of

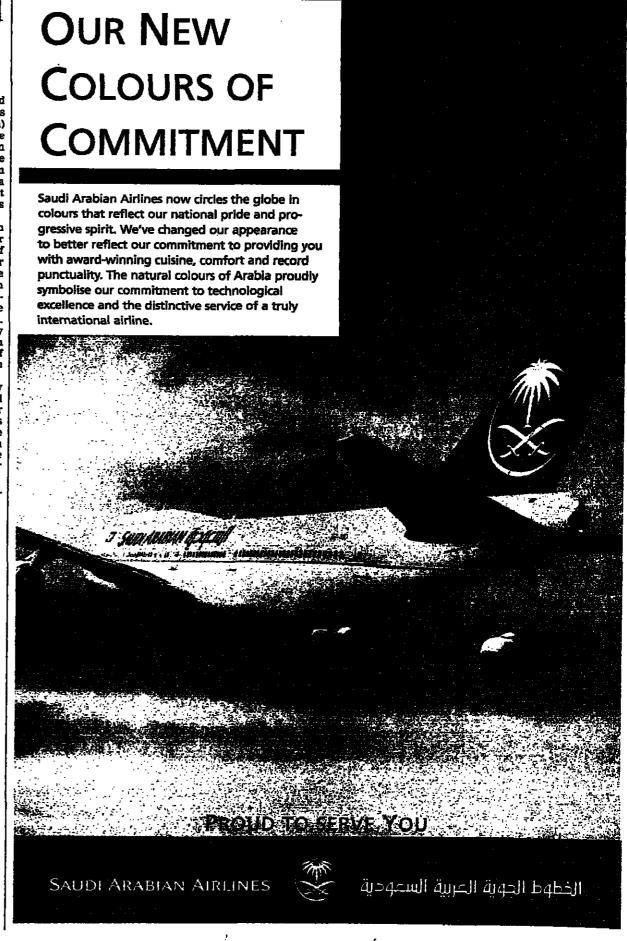
India's Child Labour Act of

16 industries. The Indian government the largest illegal under-age number of under 14-year-olds at work in factories and prompted by a public interest petition by Mr M. Mehta. an activist lawyer.

Mr Kailash Satyarthi, head directed the government to of the South Asian Coalition act against businesses ille- on Child Servirude, an gally employing an esti- umbrella (or 25) non-governmated 6m children in "haz- ment organisations in the ardous" industries and region, said the rolling would ordered law-breaking in theory affect at least 6m employers to finance a spe-children working in industries including diamond polishing, match and firework The court ruled that making, slate, class, curpet

While welcoming the court's ruling as "historie". Mr Satyarthi said he doubted it would be implemented. The court had established no mechanism other than cur-1986, a much-flouted law rent government structures which bans child labour in to identify illegal child employers, he added.

"The law will still be in has not reacted to the ruling. the hands of the govern-Unicef believes India has ment's labour inspectors, who are some of the most workforce in the world, with corrupt officials in India," he some estimates putting the said. "The court should go further and create an independent commission to monworkshops as high as 100m, itor implementation of the The supreme court was judgment."



the co-operation zone.

The bulk of future explora-

tion in the co-operation area

is likely to involve joint ven-

tures, with London and Bue-

nos Aires sharing the reve-

nues, although the precise

details on issues such as tax-

The government of Presi-

dent Carlos Menem is anx-

ious to be seen domestically

to be making progress on the

By Jimmy Burns in London and David Pilling in Buenos Aires

Britain and Argentina yesterday agreed a timetable for a joint oil licensing round in a "special co-operation zone" in disputed waters in the South Atlantic.

Under an agreement reached in London after two days' talks, a joint commission will invite bids from oil companies before the end of next year for an area south-west of the Falkland Islands. The special zone covers about 18,000 sq km, straddling Argentine territorial waters and an area involving disputed sovereignty claims to the Falk-

lands.

Both countries have agreed not to allow the sovereignty issue to get in the way of the joint commercial exploitation of an area from which Argentina in particular. hopes to take maximum

Argentina suffered some diplomatic embarrassment when it was largely excluded from an earlier licensing round organised by the Falklands Islands.

Two bids from a consortium of YPF, the country's privatised oil and gas group, and British Gas were rejected on commercial Falklands under the Argengrounds after the Argentine tine flag. government had dropped threats to take legal action against companies participating in the round.

Mr Alberto Daverede, head of the Argentine delegation on the joint commission. said he hoped the agreement would secure a significant role for Argentine compa-

"We also hope provision of onshore facilities required for exploitation in the area will help development of Patagonia," said Mr Daverede, a junior foreign affairs

YPF is thought to be inter-

in US

By Gerard Baker in Washington

A leap in energy costs pushed US wholesale prices sharply higher in November, but there was little sign of accelerating inflation in core producer prices, the Labor Department reported vesterdav.

Overall producer prices rose by 0.4 per cent from a month earlier for the second consecutive month. Excluding the volatile energy nent, however, which rose by 2.3 per cent last month, the producer price index increased by just 0.1 per cent. Excluding food and energy the rise in the core figure was also 0.1 per cent. Nothing in the figures

uggested the Federal Reserve needs to raise interest rates to bead off incipi ent inflation when its policy-making Open Market Committee meets next week. In the year to November prices at the wholesale level rose by 3.0 per cent, while the core index increased by just 0.6 per cent over the same period. There is little prospect of an acceleration in the rate in the immediate future either, as wage pressures remain weak in spite

of tight labour markets, and

oil issue, in the absence of raw materials costs are flat. any progress towards its The jump in fuel costs was caused mainly by a 2.8 per ultimate aim of bringing the cent increase in petrol prices and a 3.8 per cent rise The UK's Foreign Office in natural gas prices. Food costs, which had risen by 0.8 stressed yesterday that the agreement on oil "in no way per cent in October, declined impinges on the sovereignty by 0.1 per cent last month.

At the intermediate level

UK officials concede priproducer prices rose by 0.2 vately that further substanper cent in November as tial moves in relations with construction and manufac-Argentina will be limited in turing materials' costs the run-up to the British turned higher. Crude progeneral election. ducer prices rose by 1.8 per cent, following a a 0.6 per The round will be preceded in February by a furcent fall in October. The ther seismic study. Earlier increases in both indices were offset by flat prices in data is understood to be in the possession of the Argenthe previous month. Exclutine government and a numding food and energy, prices ber of top oil companies, and at the intermediate and is understood to confirm the crude level have been falling ested in bidding for blocs in potential for oil.

Clinton draws blueprint for second term

President Bill Clinton yesterday laid out a blueprint for action during his second term in office, calling for further efforts to balance the US budget and urging all parts of society "to spend the next 50 months preparing America for the next 50

He said "the vital centre" no longer "a lukewarm midpoint" between liberals cross party and social divisions and come together to make the most of "a rare and fleeting moment of opportunity". Mr Clinton's speech, to the

centrist Democratic Leadership Council, was his first formal address since his reelection last month. Aides had said it would reflect much of the thinking he expected to place before the country in his State of the Union address.

The president identified eight areas worthy of maxiyears. At the top of his list was balancing the federal budget in ways which still allowed for a "step-by-step"

well as reform of the two big government health insur-

But he reserved some of his strongest arguments for the imperative of making the welfare reform legislation. passed last summer, work in practice. He appealed to US businesses, big and small, to play their part in moving people "from a culture of isolated dependence into the mainstream of economic

tive welfare reform programmes around the country which offered real hope. In Kansas City, for example, companies recruiting from the welfare rolls were given individual welfare cheques as a training subsidy. But the involvement of the private sector, he said, had to be increased. His other six areas for

Mr Clipton cited innova-

improvement included education, crime, the family, campaign finance, science and technology and building new "structures" for international peace and security, including an expanded Nato and a "strong Nato-Russian



Clinton: balancing federal budget is top priority

said. "Is not liberal or conservative - it's both and it's different." He quoted President Abraham Lincoln's abiuration "to think anew and act anew".

Many of his remarks were broadly similar to themes taken up during a re-election campaign in which he was criticised by Republicans for stealing their ideas. Liberal Democrats, not strongly represented in his audience yesterday, have also expressed reservations that he was abandoning long-standing party principles. The president argued the election had produced "a new landscape". But he said "the centre can hold, has held and the

• The Republican party will enjoy an effective majority of 19 seats in the new House of Representatives. following the results of three special elections in Texas on Tuesday. Democrats won two of them, gaining a seat. The House next year will comprise 227 Republicans. 207 Democrats and one independent, Congressman Bernie Sanders of Vermont, the nominal socialist who normally votes with Democrats.

The most noteworthy defeat was that of Congressman Steve Stockman. A strong opponent of gun control, he attracted particular attention for comments that

cause of rightwing militia groups associated with several acts of domestic terror. Ultra-conservative Republicans indirectly contributed to the re-election of Democratic Congressman Ken Lloyd Bentsen, the former senator and treasury secretary. They refused to support his Republican opponent, Ms Dolly Madison McKenna, because of her "pro-choice" abortion views.

The third run-off, between two Republicans, saw a win for Mr Kevin Brady over a candidate backed by the reli-House delegation therefore

Top World Bank post for Clinton aide

people

Mr Joseph Stiglitz, the chairman of President Bill Clinton's Council of Economic Advisors, is to join the World Bank as chief economist, it was announced vesterday. Mr Stiglitz, 53, will replace Mr Michael Bruno, a former governor of the central bank of Israel, as senior vice president of the bank in February. His move leaves another gap in the president's core group of economic policy makers and advisers. Mr Clinton is expected to announce the leading members of the new team in the next few days, including

Mr Stiglitz's successor, and replace-

head of the National Economic closely identified, essentially centrist last year, the World Bank has under-Council, Mr Robert Reich, labor secretary and Mr Mickey Kantor, commerce secretary, all of whom are leaving government.

Mr Stiglitz was regarded as an effective, if somewhat low-profile member of the first Clinton administration's economics team. He served on the CEA from 1993, becoming chairman last year when Ms Tyson left to join the National Economic

A former economics professor at Stanford University, he was an important intellectual contributor to the development of so-called New Democratic economic policies, with which President Clinton has been

helped move the party away from its more liberal "big government" ideology of the past.

In his two years as chairman of the CEA, Mr Stiglitz shifted the focus of the council from the provision of mainly macro-economic policy advice towards contributions on practical micro-economic questions. The council played an important role in developing administration policy on telecommunications deregulation, the simplification of pensions and various aspects of trade policy.

Since the appointment of Mr

economic and social ideas that gone significant reform in its birreaucratic culture in an attempt to make it a more effective channel of resources for less developed countries. "I hope my experience in tackling US micro-economic problems will be useful in dealing with the development needs of poorer countries," Mr Stiglitz said.

He has previous experience of development economics, having worked in academic posts in India and Africa in the 1960s.

Among the candidates to replace Mr Stiglitz are Ms Alicia Munnell, a member of the CEA and Mr Alan

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NEWS: INTERNATIONAL

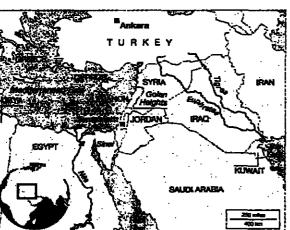
Infidelity threat to Israel-Turkey 'romance'

Judy Dempsey on the future of trade and defence accords in an unpredictable Middle East

exercises over the sea since Israel gave back the Sinai to Egypt after the peace treaty of 1979, are now practising over a vast terrain in Turkey as a result of a defence co-operation accord between the two countries. The accord, signed last February and renewed last month for a further :year, signalled Israel's long-term ambition to force a balance of forces in the Middle East, first articulated by Mr David Ben Gurion, the founder of the state of Israel who sought an alliance of non-Arab Moslem minorities as a counterweight to the Arab

sraeli pilots, restricted to

Much criticised by Arab countries as directed against them, the agreement involves sharing intelligence and training and jointly combating terrorism. A spinoff of the original accord was \$650m contract signed last Friday under which Israel will upgrade Turkey's 54 F-4 Phantom jet fighters. Both agreements follow closer contacts in trade and tourism culminating in a free trade agreement earlier this year. This opened up a route into central Asian markets for Israeli companies.



The accords were initiated when Israel had no peace agreement with Jordan and relations with its other neighbours were tense. Their future will depend on several factors, among which the peace process will play a pivotal role

An important concern is the tensions within the new Islamic government in Tur-

Mr Necmettin Erbakan, the prime minister, has recently started opening conspite of opposition from his

eign ministries, which want closer relations with Europe. Then there is the possibilbetween Israel and Syria. "All these factors will have an impact on the accords," said Mr Martin

Kramer, director of the Moshe Dayan Centre for Studies in Tel Aviv, "particularly since Turkey has always worried about not being consuited about an

agreement between Israel

been concerned with the "romance" started with Syria by Mr Shimon Peres, the former Labour foreign minister, and the late Mr Yitzhak Rabin, the prime minister who was assassinated in November 1995.

Labour had attempted to open negotiations for an Israeli withdrawal from the Golan Heights captured by Israel from Syria in 1967. But as Mr Ephraim Inbar, professor of political science at the Begin-Sadat Centre for Strategic Studies at Bar-Ilan University, explained, Turkey feared it would be the loser in any such talks.

For example, one of the most divisive issues in the region is water. Israel would seek compensation for any water it would lose from returning the Golan Heights to Syria. One way would be for Syria to pass on to it quantities from the Euphrates river from which Turkey draws much of its water. Turkish diplomats were concerned that the US would put pressure on Ankara to

allow Syria to do this. They also distrusted any

Israel's prime minister in leave Ankara vulnerable advantage," said Mr Inbar. May, Turkish diplomats had since any redeployed Syrian Mr Netanyahu has not troops from Israel's borders would be based closer to cies with Turkey, as the Turkey.

"You can see why Turkey was relieved when Mr Netanyahu won," a senior EU's - and Turkey's - per-Israeli official said. "It thought Israel's romance with Syria had come to an end." But another romance and one to Turkey's liking also faded as a result of Mr Netanayhu's elections: Israel's relations with the European Union.

As a result of the peace process, Mr Peres had gained considerable respect and support among EU countries. Through those improved relations, he helped persuade EU countries to extend a customs union agreement to Ankara earlier this year, in spite of Turkey's dismal human

rights record.
"While Israeli pilots were obtaining intelligence of Turkey's neighbours during exercises over the country and the business community was using good economic and political ties with Turkey to leapfrog into central Asian markets, Turkey could Before the election of Mr peace accord between Israel use Israel's improved rela-

Mr Netanyahu has not deviated from Labour's polirecent ratification and extension of the accords confirm. What has changed is the ception of the peace process. The goodwill Labour built up among EU countries has faded as a result of the standstill in the peace process. Consequently, Israel's clout in helping Turkey realise some of its ambitions in

Europe has weakened. At the same time Turkish support for the defence accord could sour if relations between Israel and the Palestinians deteriorate, particularly since Turkey has long been a supporter of the Palestinians, and if Mr Erbakan's strident anti-EU foreign policy prevails over the pro-western Turkish establish-

"Everything is so intertwined," the Israeli official said. "We are beginning to regional security and alliances have depended on the peace process and how much Israel will have to balance especially if it starts negotia-Benjamin Netanyahu as and Syria, believing it would tions with the EU to its own ting again with Syria."

common man," one official

said. "And we must aim for

single digit inflation to ease

For Mr Rawlings, victory

marks the culmination of a

political career which began

almost 20 years ago, followed

by a transformation. first to

World Bank inspired policies

of economic structural

adjustment and then, in

1992, away from military

Even his opponents

acknowledge that democracy

in Ghana now stands on a

firmer footing than at any

We had an election and

time since independence.

rule to multi party politics.

his plight."

INTERNATIONAL NEWS DIGEST

Deadlock over new UN chief

The UN Security Council last night remained deadlocked over the selection of a new secretary-general after three more informal straw polls failed to remove French opposition to the front-running Mr Kofi Annan of Ghana. Mr Amara Essy, Ivory Coast foreign minister, the other leading candidate, again was denied the support of the necessary minimum of nine votes. He also encountered opposition by the US and Britain, which had veto power. A senior US official said during the polling process that if the French continued to block Mr Annan, 57, who at one point received 12 affirmative votes, they risked

denying the secretary generalship to an African.

• Ms Elizabeth Dowdeswell, Canadian head of the UN Environment Programme, who has been accused of poor management by some western members, will have her contract extended for only a year, it was announced last night. Mr Boutros Boutros Ghali, secretary-general, made the recommendation to the General Assembly after consulting UN regional groups. But his press secretary, Ms Sylvana Foa, said it had nothing to do with Ms Dowdeswell's performance. Michael Littlejohns, New York

Bonn puts off Unido decision

The German government yesterday put off until next summer a decision on whether to pull out of the United Nations Industrial Development Organisation, Unido, to allow time for consultations with the European Union and the Group of Seven

The cabinet's decision papered over differences between Mr Carl-Dieter Spranger, the development aid minister, who had sought Germany's exit from Unido to save money, and Mr Klaus Kinkel, the foreign minister, who felt that pulling out could damage Germany's bid for a permanent seat in the UN Security Council. Germany will consult its EU and G7 partners on how

far Unido and other UN agencies have improved their efficiency since the 1995 Nova Scotia G7 summit launched an initiative to reform the UN.

Tajik rebels seize gold mine

Opposition troops in Tajikistan have taken over a British-run gold mine, according to radio reports resterday. The Voice of Free Tajikistan, which broadcasts from a rebel exile base in northern Afghanistan, reported that troops led by Mr Mirzo Ziyo, a warlord from nearby Tavirdara, had defeated government troops and captured the Darvaz gold mine in southern Tajikistan on Tuesday. The mine, just north of the Afghan border in a region dominated by opposition armies, was run by a joint venture with Gold & Mineral Excavation, a private British

Sander Thoenes, Tashkeni Kenyan justice 'manipulated'

The justice system in Kenya has become so weighted in favour of a powerful elite and so tilted against the innocent that ordinary Kenyans are increasingly resorting to mob justice to defend their rights, according to a report by the London based human rights group African Rights. In the 267-page book entitled Shadow Justice, the organisation paints a bleak picture of the reality of justice in Kenya today.

It concludes that despite introducing multiparty democracy in 1992, the government of President Daniel Arap Moi has systematically manipulated the legal system to block real reform. Michela Wrong, Nairobi

Size of Rawlings victory surprises Ghana

Mr Jerry Rawlings, the former air force pilot who seized power in Ghana 15 years ago, was yesterday declared the clear winner of Saturday's presidential and parliamentary election.

According to the National Electoral Commission, Mr Rawlings scored 57.2 per cent while his closest rival. Mr John Kufuor, trailed with 39.9 per cent. Mr Rawlings' National Democatic Congress performed even better, winning 130 of the National Assembly's 200 seats.

The results have confounded analysts and diplo- of campaigning to influence mats, who had predicted a much closer contest. "People judged the strength of the opposition from the size of some of their railies in the Commonwealth team said:

By Antony Goldman in Accra big towns," said Mr Kofi Gogobi Quakyi, minister of information. "But we knew we were better organised across the country, so we were confident of this vic-

tory." The opposition is more sceptical. Newspapers have reported irregularities and malpractice. Mr Peter Adietey, chairman of the New Patriotic party, expressed suspicion about the scale of

Mr Rawlings' victory. "Some of these figures are simply astounding, especially from the north. And we have evidence of money

opinion formers like chiefs." International monitors passed the elections as free and fair. The 23-member

which reflected the will of the people." With a turnout of more than 75 per cent of Ghana's 9m voters, the team added: "We were deeply impressed with, and wish to commend the strong commitment of the people of Ghana to the democratic

Mr Rawlings has thus far restricted his public comments to an appeal for national unity.

"We are one family, and we must forge ahead in unity, for there is more work to be done," he told a team being used in the final days of American election watchers. His ministers have gone further, already hinting at overtures to the opposition. "We know the results are an endorsement of the political and economic policies we



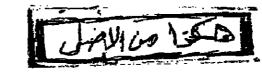
Rawlings: clear win for coup leader have been pursuing," said promises to continue to pro-

Mr Quakyi. "But we will not ignore the minority view. and realise more must be areas."

done for people in the urban rate of about 40 per cent are While the government into the cost of living for the that."

mote a free market economy and privatisation, greater efforts to tackle an inflation likely to follow. "This eats

it was peaceful, which is some kind of progress," said one losing parliamentary candidate. "And I guess even I must be grateful for





HH President Sheikh Zayed bin Sultan Al-Nahyan

Architect of the UAE

25 years of service built upon honour, integrity and respect.

n December 2, 1971, the United Arab Emirates was established as a newly-formed federation of states under the prudent and benevolent guidance of His Highness the President Sheikh Zayed bin Sultan Al-Nahyan. It was the start of a challenging and exhilarating voyage of self-discovery and development for this fledgling nation.

During the last twenty-five years, fired by the imagination and vision of the Ruler, HH Sheikh Zayed, the UAE has become a key participant in the affairs of the GCC region and beyond. At the same time, the UAE's importance as a trading partner with both the industrialised and developing countries of the globe cannot be over-emphasised.

For each and every citizen it has been a momentous journey

states in the region. It is difficult to believe that so much has been achieved in such a comparatively short time – and in the face of challenging conditions, both economic and political. HH Sheikh Zayed's firm but forgiving touch is evident in every aspect of the Emirates' development – from the soaring skyline and bustling commercial activity, the state-of-the-art communications systems and social welfare programmes, to the advanced industrial infrastructure and an education system fully attuned to the needs of future generations.

Furthermore, it is a testimony to the prudence and imagination of the Ruler that prosperity and stability have been achieved without sacrificing traditional values and a rich cultural heritage.

Firm Foundations for Nationhood

Clinton aid

eadlock mer

w 1 > chief

norm in the oasis settlement of DBuraimi, HH Sheikh Zayed has witnessed a series of far-reaching changes in the world order as well as that of the Gulf. His early travels to Europe gave him an insight and breadth of vision which have served. him well. He has frequently been quoted as saying that the economic and political systems of the world are inextricably linked and that no country, or group of countries, can live and develop in isolation. Indeed, his partnership with the people of the UAE has been significantly enhanced by the many and varied contributions by people of other nationalities from around the world.

In 1946 HH Sheikh Zayed was appointed Governor of Al-Ain, an historic settlement where evidence of settled civilisation has been traced back to the fourth millennium BC. During the twenty years of his governorship, the transformation of Al-Ain was spectacular. The ancient irrigation systems were revitalised to create a flourishing agricultural and horticultural industry which now meets over 40% of local demand for fresh fruit and vegetables. Such achievements and initiatives have served as an effective blueprint for the subsequent development of Abu Dhabi and the UAE as a whole.

"The People Are Our Greatest Resource"

Unquestionably oil and gas have played a pivoral role in the development of the country, but it is the determination of the people and substantial investment in developing their potential that have shaped the UAE's formidable record of achievements thus far. In 1982, just eleven years after HH Sheikh Zaved's accession, the first students graduated from the Emirates University at Al-Ain. And it is on the shoulders of these and subsequent graduates, both men and women, that the hopes and expectations of the country rest.

Right: In just 25 years Ahu Dhahi has been transformed from a tiny desert settlement into a thriving, modern garden city.

The responses to this challenge are clear for all to see. On the one hand, the nation has broadened its industrial base to complement and, in time, reduce its dependence on the oil industry alone. On the other, the social cohesion and confidence of the people is manifest in, for example, the network of trade links forged, the warm welcome extended to visitors from across the world and the enthusiastic participation in sporting events such as the 1990 World Cup.

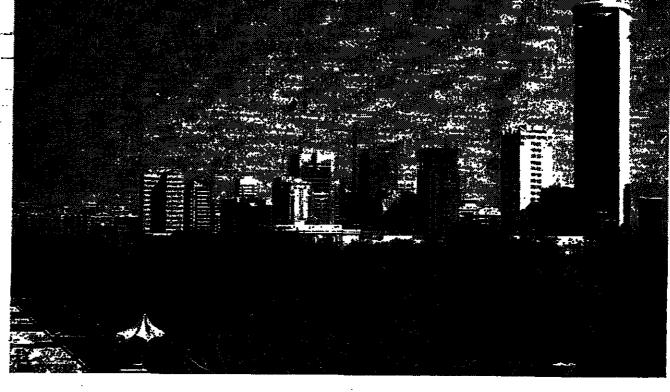
"Building Bridges of Understanding"

In May 1981, HH Sheikh Zayed inaugurated the first summit conference of the six-member Gulf Co-operation Council in Abn Dhabi. The participating nations comprised the UAE, Saudi Arabia, Kirwait, Bahrain, Oman and Qatar. The significance of this event was soon apparent, as each member state sought to establish a firm base for ensuring the security and prosperity of the region, based on trust and a firm commitment to the guiding principles of Islam.

The GCC has provided a vital forum for promoting pan-Arab unity and a conduit through which differences within the Arab world can be resolved through dialogue and mediation. It is a measure of HH Sheikh Zayed's commitment that he, personally, has played a prominent role through personal contact in building lasting relationships across the globe.

"God Will Direct Our Steps"

Speaking at the inaugural meeting of the GCC, His Highness told his fellow heads of state "I pray to God we shall succeed in our work and that God will direct our steps in achieving the aspirations of the people." These words indicate both



the humility and statesmanship with which the Ruler inspires his people to work as one for the common good.

Seven years after the establishment of the GCC, the Paris-based Man of the Year Organisation voted the President the Most Prominent Personality of 1988, citing the part he had played in ending the eight-year conflict between Iran and Iraq and the restoration of ties with Egypt.

Integrity and Honour

The early 1990s were difficult times both for the nations of the region and for HH Sheikh Zayed personally. The Gulf Conflict proved a testing and traumatic experience for all the countries of the region, and placed a huge financial burden on those involved.

For Sheikh Zayed, events surrounding the BCCI episode have proved to be the most traumatic in his thirty years as Ruler of Abu Dhabi. A man who has given so much to his country and his people, His Highness has always remained committed to ensuring that depositors are fully compensated in the wake of the closure of the Bank of Credit and Commerce International.

Throughout this difficult period, His Highness Sheikh Zayed has withstood all attempts to discredit his name. Despite the malicious stories surrounding the BCCI affair, his honesty and stature have steadfastly refuted such unfounded allegations.

By the late 1980s the situation at the bank had deteriorated to such an extent that the Ruler and his government were obliged to intervene, as a matter of honour, to protect the interests of hundreds of thousands of small depositors in the UAE and elsewhere in the world.

After a further five years and a commitment of more than US\$5 billion, HH President Sheikh Zayed has succeeded in settling the claims of all small investors in the UAE. It was widely reported in the local press that these depositors will be paid in full before the end of the year. Other secured creditors of the former Bank of Credit and Commerce International can also expect their first dividend of 24.5% by the year end, according to a statement issued in Luxembourg by the bank's liquidators.

Before long the real story behind the BCCI affair will emerge and the truth will be seen to prevail. Above all, His Highness Sheikh Zayed remains a beacon of integrity and honour to his own people and the community at large. He has always stood out as an anchor of hope for the small depositors, a hope he has fufilled by his insistence on a satisfactory resolution to the whole episode.

A Cause for Celebration

This month marks not only the L twenty-fifth anniversary of the formation of the United Arab Emirates, but also HH Sheikh Zayed's thirtieth year as Ruler of Abu Dhabi. It is a period in which a nation has grown from nothing to one of the most modern and socially cohesive countries in the region. According to the World Bank, the UAE now ranks number 12 in the world in terms of per capita income. This astonishing achievement will be cause for gratitude and celebration by many - the nation's 2.2 million citizens, the thousands of expatriate workers who have contributed and more than 1.5 million visitors who come each year to sample a taste of what the future holds in store. They will all enjoy the fruits of one man's vision - that of HH Sheikh Zaved bin Sultan Al-Nahyan.

For further information please contact meiac, 50 Hans Crescent, London SW1, England.

Minister resigns after MPs' probe

paymaster-general, last Hamilton, a former Consernight became the most vative minister, took cash prominent scalp of Westmin- for asking questions in parster's cash-for-questions affair when he dramatically resigned from Mr John Major's government.

The 40-year-old MP, widely seen as one of the Conservatives' top high-fliers, stunned colleagues by quit- at public hearings "as being ting office in the wake of damning criticism of his role as a government whip – a parliamentary party business manager – two years ago. His successor was named last night as the MP for Langbaurgh Mr Michael

The resignation came minutes after a parliamentary committee had accused him of attempting to "dissemble" when giving oral evidence over his involvement in the

a previous inquiry in 1994 Mr David Willetts, the into allegations that Mr Neil liament. The all-party standards and privileges committee, in its first formal judgment since it was set up last year, said it would not accept much of the oral evidence Mr Willetts had given

> The committee said: "We are very concerned that any member should dissemble in his account to the committee and believe that this response by Mr Willetts has substantially aggravated the original offence."

accurate".

In a brief statement, Mr Willetts said: "In the light of the committee's report, I felt the only honourable thing to do was resign."

The prime minister's office

saying the prime minister had accepted it with regret. "Mr Willetts has tended his resignation as an honograble man," a spokesman said. The sudden departure

from the government of one of the most promoted Conservative MPs of recent years is the latest in a spectacular series of recent blows for Mr Major. Conservative MPs pri-

vately admitted it had

finally destroyed any claim

the prime minister and his

party were in the throes of a pre-election recovery. The opposition Labour party said the Willetts affair was "a massive embarrassment" for the government, pointing out that the committee was due to investigate further allegations against current and former Conservative minis-



cash-for questions affair. said Mr John Major had not Mr Willetts had been attempted to dissuade the Editorial comment, Page 13 Out: David Willetts arriving at the Cabinet Office yesterday

Instinct, an agency stockbroking firm owned by Reuters, the financial information company, has protested strongly that the new rules for order-driven trading are anticompetitive and would give unfair privileges to big banks.

The argument over the rules, ditional criticisms of the investment banks that currently act as marketmakers in company shares for telephone-based trading.

the UK government's compe-

ening its policy on anti-competitive ties

between manufacturers and

The proposals are published today in an OFT dis-

ines such ties as price-fixing

and exclusive distribution

firms that in certain circum-

Mr John Bridgeman, the director-general of fair trad-

such at NatWest Markets and BZW, the investment banking arm of Barciays - draft rules which were published by the exchange in Octo-ber have been amended to give them

governing how soon a bank executing a block trade must disclose details of this trade on electronic screens and the degree to which it most take up offers to buy and sell already posted on screens.

After lobbying by marketmakers hour before an investment bank has to disclose the terms of some large trades. This may face scrutiny from the Office of Fair Trading, which

has opposed such delays.
Instinct has also criticised rules that allow an investment bank executing small orders for less than 1,000 shares through proprietary electronic systems to do so without having to use the public order book under some circumstances.

Mr Doug Atkin, the managing director of Instinct in Europe, accused the exchange of "legislating for inefficiency" in the new rules. It should "aim for a simple, transparent market", he said.

Instinct, one of the biggest bro-kers on the Nasdaq exchange in New York, has been expanding its The rules are thought to have business in London in the last few

The exchange is also thought to have accepted the argument of some large marketmakers that they should not have to take up offers on the public order book when executing big trades of more than six es normal market size.

One director of a marketmaking firm said that banks needed to be given an incentive to risk capital to provide liquidity. "If we are not allowed any secrecy, then nobody is going to risk their capital on behalf of investors," he said.

instead offers to match buy and sell

trades among customers.

was instrumental in negotiating the Maastricht treaty in 1991, quoted senior Bundesbank officials as saying that political union would be a by-product of monetary Tietmeyer, Bundesbank president, "doesn't speak for

The exchange's new regime must be approved by regulators as well as the OFT. The Securities and Investments Board, the chief regulator in the City of London, has been pressing for immediate publication of

"Any attempt to fudge the criteria to let these countries in would not be in the interests of those countries themselves. And it could be disastrous for the rest of the EU, who would have to suffer the

consequences," he said. More than four fifths of UK companies have not made any preparations for the introduction of the planned European single currency, a business survey has found, Graham Bowley writes. The poll by Reed Accountancy Personnel, the recruitment consultant, of 200 UK financial directors found 84 per cent of compa-nies had made no prepara-tions, while almost half had

per cent of companies had made some preparations.

Share trade rules 'favour big banks'

motor distribution and per-

fumes. It plans its own dis-

cussion paper next year. Meanwhile, the OFT paper

says that while there has

over aspects of present policy arrangements" and "the

lenient treatment given gen-

restraints there has been lit-

tle policy change.
The authors reject the

European Commission offi- markets dominated by one levels to be maintained.

erally"

competition bill, which arguments of some econo-

includes several policy mists that vertical restraints

been "considerable disquiet

By John Gapper, Banking Editor

The London Stock Exchange faces strong opposition to its rules on electronic trading of shares, which is due to be introduced next year, on the grounds that they favour large investment banks undaly.

which are due to be published tomorrow threatens to resurrect tra-

more incentive to risk their capital. London is due to switch to orderdriven trading - in which buy and sell orders for shares are executed electronically - for the shares of FTSE 100 companies on October 20. However, banks will trade big blocks of shares separately. The controversy is over the rules

assessments of vertical

restraints. This will, I hope,

produce a more systematic

and effective application of

competition policy in this

The proposals could pro-

The government's draft

ing, said: "This research con- reforms, contains no promote efficiency. The

attempts to strengthen the

rules on vertical restraints.

voke strong reactions among

competition policy officials

restraint in recent years.

important area."

been amended to allow a delay of an years. It does not risk capital, but

Watchdog reviews competition policy

"We are now looking to cials have a fairly tough company or a few powerful see how we can incorporate code on vertical restraints ones.

recent Monopolies and the approach proposed by but have often granted block. It also points out that Mergers Commission studies turers can dominate markets and abuse their position particularly in the UK, where supermarkets and retail chains are strong. Any assessment of vertical restraints should begin with

an examination of market power - of retailers as well

Any further concentration of retailer power in UK groceries could be against the public interest. It says that "rigorous price competition has on the whole been report says that restraints avoided, allowing for high can harm competition in net margins and high profit

The report examines recent Monopolies and of vertical restraints into beer, soft drinks, petrol, motor car distribution and ice cream. It agrees with the MMC's

criticisms of the beer and soft drinks industries. It also supports the MMC's finding that ties in petrol distribution were not damag-

But it calls for a tougher approach towards ties in motor car distribution and not considered the advent of by the MMC. the single currency at all; 10

Vertical Restraints and Competition Policy, the Office of Fair Trading, 53 Chancery Lane, London WC2A 1SP.

UK NEWS DIGEST

Finance

minister

attacked

start-up date for European

monetary union if member

states continue to have diffi-culty in meeting the conver-

But his attempts to pres

ent himself as a less than-

ardent supporter of a single

currency failed to convince Conservative backbenchers,

who accused him of leading

the UK into a European

"superstate". With Conservative unity

close to tatters over the

wait-and-see" policy of Mr

John Major, the prime minis-

ter, on the single currency, Mr Clarke attempted to give

a measured exposition of the

To shouts of "rubbish" and

"resign", he told the House of Commons on the first day

of a two-day debate: "There

is no Conservative politician

who is a federalist. Treating

the debate about Emu as if it

were about the creation of a superstate arouses public

fears and deprives the public

Mr Gordon Brown, the

opposition Labour party's

finance spokesman, said the

reaction to Mr Clarke's

speech from Conservatives

showed "why the govern-

ment was so anxious to avoid a vote on this debate".

Mr Norman Lamont, who

Mr Clarke said Mr Hans

Germany", and that, by con-

trast, Chancellor Helmut

Kohl saw the two issues as

as Mr Clarke's predecessor

zence criteria.

pros and cons.

Doubt cast over millennium plan

over Emu Plans for a 2700m (\$1,150m) millermium exhibition at Greenwich in south-east London were plunged into doubt By John Kampiner, Chief Political yesterday after the opposition Labour party refused to give an open-ended commitment to hankroll the project if it wins the general election. Mr Jack Cunningham, the party's heritage spokesman, said the proposed business Mr Kenneth Clarke, the UK plan for the exhibition on the theme of time was flawed chief finance minister, called and the viability of the scheme was questionable. yesterday for a delay in the

Mr Michael Heseltine, deputy prime minister, spent yes terday in talks with other members of the Millennium Commission to discuss whether the project could proceed without Labour backing. The collapse of the plan would be a huge personal blow for Mr Heseltine, who has given the exhibition his personal endorsement and has won pledges worth about £150m from the private sector.

The corporate sponsors, including British Telecomi nications and British Airways, have warned they will pull out unless they received undertakings that an incoming Labour government would underwrite any cost overruns. The commission meeting broke up yesterday without agreement on whether to release £200m of National Lottery funds for the project. The Commission will meet again today, and may ask the private sector operating company for the exhibition, Millennium Central, to come back with new proposals.

■ TELECOMMUNICATIONS

Mobile phone call costs to rise

The cost of calls to One-2-One and Orange mobile phones from the British Telecommunications network is set to rise substantially in February as a consequence of negotiations now being concluded between the three operators. BT's customers currently pay about 16.71 pence (27 cents) a minute at peak rates to call an Orange or One-2-One phone. From mid-February the cost is expected to rise to between 29p and 30p a minute at peak times and 19p to 20p in the evenings. The cost of calls from mobile phones to BT fixed phones or to other mobile networks will not be affected. The price changes will result in a significant boost to the revenues of the two mobile operators, who at present do not recover their fully allocated costs for delivering calls originating on BT's network from the fixed

SUGAR

Producers give price undertaking

British Sugar and Tate & Lyle Industries, which together hold more than 90 per cent of the UK sugar market, yesterday gave undertakings to the Restrictive Practices Court not to fix sugar prices. If the companies break the undertakings they could be fined. But the court does not have the power to impose a penalty for this offence which stemmed from an agreement between the two sugar producers not to compete on prices for a period between 1986 and 1990. The case has been before the court since June 1991. The two are still being investigated by the European Commission over the same issue, and that could result in the companies being fined.

Mr John Bridgeman, director-general of the Office of Fair Trading, yesterday called on the government to reform the law on restrictive agreements. The two companies will have to pay the OFT's costs. Both groups said they had instituted compliance programmes following the discovery of the price-fixing agreement.

■ PETROL

Spending cuts blamed on price war

Petrol retailers have out capital investment by up to 50 per cent to protect profit margins during the long-running price war, according to forecourt equipment suppliers. Companies manufacturing products such as petrol pumps, hoses and computer controls say retailers including Esso. Shell and supermarket chains Tesco and J. Sainsbury

have imposed a "selective freeze" on new investment The latest quarterly figures from the Petrol Pump Manufacturers Association show year-on-year orders fell by 48.8 per cent to 1,243 units in the three months to Septem ber 30. Some industry analysts have cut their investment forecasts for the UK retail sector from about £200m (\$328m) to £120m this year.

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LIFE EXPECTANCY

Death rates decline over decade

Unskilled labourers are almost three times more likely to die before the age of 65 than professionals, although mor-tality rates for all social classes have declined over the past 10 years, a study shows. According to research by the Office for National Statistics, there is still a clear correlation between mortality rate and social class for men aged between 20 and 64. Males in professional jobs tend to live longer than those in manual or clerical jobs who, in turn, outlive unskilled workers. The study shows that the mortality rate for men in professional or managerial occupa-tions declined by 35 per cent between the early 1970s and the early 1990s.

TRUCK SALES

Second monthly registration fall

Truck registrations plunged heavily for the second month in a row during November following the registration bulge in September ahead of tougher, "Euro 2" exhaust emissions legislation introduced on October 1. A rush to best the deadline caused registrations of trucks over 3.5 tonnes to leap by 121 per cent, year-on-year, in September. The year-on-year registration fall of nearly 40 per cent in October was followed last month by a 35 per cent drop, to 3,155 units from 4,853 in the same month a year ago. In the 11 months of the year so far over-3.5 tonnes registrations have fallen 29 per cent to 47,652 units compared with 49,065 at the same time last year.

Hackers find ways through software firewalls

The raid on the Labour party's Web site highlights a security problem facing many companies

backer penetrated the defences surrounding the opposition Labour party's World Wide Web site this week serves as a timely reminder that all computer security systems, no matter how sophisticated, can be circumvented by a determined expert.

The raids - which involved

recasting Mr Tony Blair, the Labour leader, as his puppet cari-cature from the satirical TV show Spitting Image - come at a critical Internet and electronic commerce.

The apparent ease with forming the Internet from a play-which a US computer thing for academics and "techies" into a valuable communications, marketing and research tool and setting the stage for the emergence of a global electronic marketplace.

The latest new arrival on the Web is 10 Downing Street - the prime minister's official London residence - which yesterday launched its own site, featuring links to a wide range of other political pages, including

But the very nature of the Internet - an open system without a governing body - invites the inter-Over the past two years, a grow-ing number of organisations have established a Web presence trans-in demonstrating their technical est of hackers, most of whom are

prowess than causing damage or into every 20 seconds, and it is not prime sources of passwords and theft. While market surveys conjust business computers which are other information. firm that Internet security at risk. The Pentagon's com remains a primary concern for many chief executives when considering setting up a Web site, sophisticated software security packages called firewalls and

to offer comfort. Sales of security software and equipment are growing at about 40 per cent a year and are expected to be worth about \$1km a year by the end of the decade. But studies suggest that more than 30 per cent of

other techniques for keeping out

unwanted visitors have appeared

sites are unprotected. According to US estimates, a computer on the Internet is broken

just business computers which are systems were attacked about 250,000 times last year, according to the US defence department's computer security force. Hackers employ a wide range of methods to evade or overwhelm computer security system

ing a password - most people still pick family names or birthdays for their password and rarely change

In the US, computer hacking clubs arrange evenings of "dumpster dipping", sifting through rub-bish bins behind office buildings looking for computer print-outs

of firewall software is that the

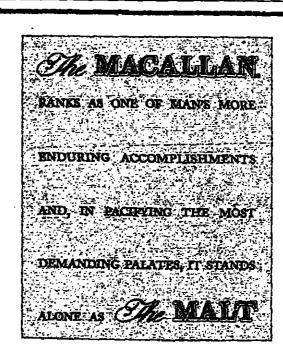
software used by hackers themsuch as Satan (Security Administrator Tool for Analysing Networks) was distributed freely over the Internet last year. Other hacking tools, such as

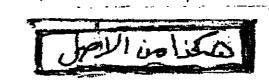
Rootkit provide free software developed by hackers themselves to enable an intruder to get "root access" to a network and then take control as though they were a systems administrator.

Paul Taylor

A FENCE







FINANCIAL TIMES . THURSDAY DECEMBER 12 1996



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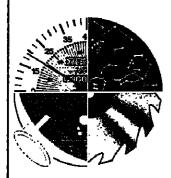
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Worth Watching · Vanessa Houlder



Fabric idea **bubbles** to surface

A Korean sports equipment manufacturer is using a newly-patented fabric to make ultra-thin, floatable clothing capable of supporting a 21 stone man in water.

The fabric, which contains thousands of trapped air bubbles, is 0.5mm thick and can support 4.93kg per square centimetre in water. It is made from low-density polyethylene and a foaming agent, in a process that involves heating, compression and cooling.

Weekwang Trading Company is using the material to make lifeiackets and clothes for fishing, sailing and mountaineering. Its first product, a fishing suit, will cost \$850; it is available only in South Korea.

Korea International Trade Association: South Korea, tel 25510114; fax 25515249.

Barcodes put in the shade

Some companies print barcodes on documents and letters so they can keep track of them as they are processed and sent to customers. A less obtrusive alternative to the barcode for this type of application has been developed by Xerox and Formscan, an optical recognition equipment manufacturer.

DataGlyphs are tiny 45° diagonal lines, each of which represents a single binary 1 or 0 depending on whether it slopes to the right or the left. When they are laid down in groups on a regular, finely spaced grid, they appear on the page as a shaded area. The overall effect resembles the half tone of a photograph, allowing the lines to be incorporated unobtrusively in a logo.

The glyphs, which were

originally developed at Xerox's laboratory in Palo Alto, California, can be read at speeds of more than 20,000 pages an hour. They can also be printed on documents to assist with electronic filing systems. Formscan: UK, tel (0)1373 461446; fax (0)1373 461269.

Drugs delivered more easily

An electronic inhaler that allows drugs to be delivered more easily and precisely could improve the treatment of diseases such as asthma.

The TouchSpray, which was leveloped by The Technology Partnership, a UK research company, is designed to cut down the effort and co-ordination needed by

Instead of using propellants, it has an electronic sensor that monitors the patient's breath. At the right time, it releases a fine spray of droplets that should reach deep into the

Glaxo Wellcome, the pharmaceutical company, has signed a licence agreement that will give it access to the TouchSpray technology for treatments for asthma and related ailments.

The technology can be adapted for optical, nasal, aural and ophthalmic delivery. It will expand the choice of delivery devices which include nebulisers, dry powder inhalers and propellant-based metered-dose inhalers.

The Technology Partnership: UK, tel (0)1763 262626; fax (0)1763

Ground poliution on the rails

One potential cause of ground or water pollution is oil discharged from trains. 3M, the industrial group, has developed a technique for blocking ground pollution on railway

The Track Tray contains sheets that repel water but absorb oll discharged from trains. After use, the contaminated sheets can be wrung out. The technology has been tested at an Exeter maintenance depot, where trays have been laid and monitored.

3M: UK, tel (0)1325 300546; fax

reenpeace, the environmental pressure group. has got itself involved in a race with the world's car manufacturers for a green car for the 21st century.

But while carmakers say that a vehicle capable of travelling 100km on 3 litres of petrol will take years to develop, Greenpeace claims it has already won the race. It is currently touring Europe's

car manufacturers in an attempt to interest them in technology developed for its Smile (small, intelligent, light, efficient) car. The car, which started life as a Renault Twingo, can travel 100km on 3.3 litres, halving the Twingo's fuel consumption and the emissions associated with environmental problems, such as global warming.

The car was altered for Greenpeace Germany by Swiss engineers at an estimated cost of DM2.5m (£970.000).

The Smile's busy schedule includes meetings with Fiat this month and Mercedes-Benz in mid-January. December will also see emissions and fuel consumotion tests by Swiss vehicle authorities. Greenpeace is offering to lease the technology developed for the Smile to any company which promises to work seriously on it. Greenpeace wants to reserve the right to take the technology elsewhere if no progress is achieved within one or two years.

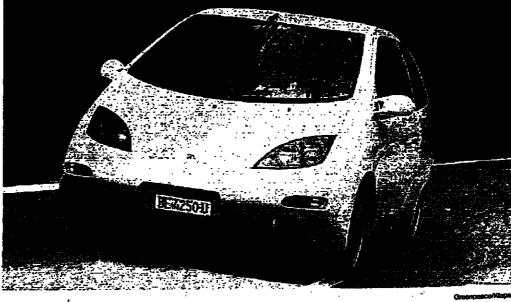
So far the response from the companies that could put this vehicle on the market has been polite discouragement. "I would say the response has been a bit disappointing," admits Wolfgang Lohbeck, head of Greenpeace's Smile team. "But on the other hand, a decision to build a new car is not taken in a matter of days or weeks."

Industry argues it could produce a similar car any day but that this would not satisfy the budget, comfort, durability, and safety requirements of consumers. It points out that these features have increased cars' weight, offsetting the fuel efficiency gains of the last two decades.

Mercedes-Benz says it will aim to convince the environmentalist organisation that it is already well on the way to success with its planned launches of the ess car and the Smart.

The A-class car, a small Mercedes unveiled this week, consumes 40 to 70 miles per gallon, still well short of the 90 miles per gallon goal.

But the company says the "customer wants a whole car concept of which low fuel consumption is only one part, alongside high



occeptance: Greenpeace is touring European manufacturers to interest them in technology for the Smile

Greenpeace wants carmakers to take on its designs

for a low-fuel vehicle, writes Leyla Boulton

Smile milestone

safety, comfort, and durability". Elsewhere, a deafening silence Peugeot and Renault of France. But Lohbeck is also eager to explore co-operation with Japanese manufacturers. such as Mitsubishi.

Greenpeace's foray into car manufacturing, after its success with an environment-friendly freezer, is part of its attempts to promote solutions to environmental problems.

This is inspired by a desire to move away from simply campaigning against problems, with-out necessarily forsaking the direct action for which it is famous. Greenpeace secured its offer of "high-level talks" with Mercedes-Benz after scaling the company's headquarters. The move also underlines a

suspicion by Greenpeace that the industry is sitting on solutions that are against its vested interests. This is vehemently denied by Volkswagen, the first car manfacturer to set itself the goal of developing a 3 litre car. But Dietrich Meyerdieks, bead of environment and transportation at Volkswagen. Europe's biggest carmaker, says the Greenpeace vehicle has "nothing to do with mass production".

Greenpeace in return dismisses Volkswagen's reliance on diesel

engines as "an energy-saving speeds, although "in reality cars tool", and points to the company's slowness in developing the 3

litre car. More than such polemics, the challenges facing Ford in bringing its Ka Step 1 car to market may help to illuminate the difficulties facing the Smile.

Ford says the Ka Step 1 unveiled last month, achieved 90 miles a gallon - close to 3 litres per 100km - on a rigorous new European Union fuel cycle. But Richard Parry-Jones, vicepresident of Ford's global small to medium vehicle centre, says it "would not be affordable to most people, and we could sell [it] only in a very limited volume".

Tet Greenpeace claims its car really does offer something new. It has a supercharged, horizontally opposed two-cylinder four-stroke engine, of 358cc and putting out 55 horsepower. The stress implied in this combination prompts Meyerdieks to liken the Smile to a Formula One racing car. The car is 195kg lighter than a

standard Renault Twingo, with the engine alone weighing 80kg

Greenpeace says one problem with most cars is that they are still built with a view to maximum acceleration and high where performance requirements are low".

Responding to companies' accusations that it is not making the car widely available for independent testing or that the car would fail a crash test, Greenpeace points out that it has just the one car.

Tests to be conducted by Swiss authorities later this month should shed more light on this unique car which has already travelled 100,000km. Excepting a surprise deal to

market the technology, however, the Greenpeace Smile is more likely to spur car manufacturers further and faster along the route they are already travelling independently. "It is important that somebody

should show what is possible, says Lohbeck. But that will not be enough for Greenpeace, which has already said that "3 litres of petrol are 3 litres too many". It argues that fossil fuels must be dispensed with "completely" as soon as possible.

But in the name of its newfound pragmatism, Greenpeace accepts there are still only "niche markets for solar and electric vehicles" even in Germany, home of the first people's car and one of the greenest markets.

speaks volumes

7 ith Christmas coming, increased attention will soon be paid to drinking drivers, and the breathalyser teams will be busy. But blowing into a bag and giving blood samples may become redundant if a novel speech analysis system reaches the roadside. Researchers at the Georgia

Institute of Technology in Atlanta are working on a digital analysis technique aimed at turning a recording of shurred speech into a simple test for drunkenness.

They are studying what

happens to speech patterns when affected by alcohol consumption, and how this can be detected and digitised for computer analysis.

During normal speech, air asses from the lungs to the lottis, an opening in the vocal cords; it is then shaped into sounds by part of the vocal tract, including the tongue, teeth and lips. The puffs of air produced by the opening and closing of the glottis during speech are called glottal excitation waveform.

This waveform is important in the subtle differentiations in speech; differences can be detected between the waveform for normal speech and for that of someone who has been drinking excessively.

Tests indicate that intoxication causes jumpy changes in pitch and energy production with unsteady pening and closing of the vocal cords. A suspect driver's speech would be recorded at the roadside and compared with a sample recording taken when the driver had not consumed alcohol.

The system could be used to est aircraft crews. train drivers or other operators of machinery. In these cases speech would be compared with previous recordings.

The researchers are comparing their results with other factors that affect the vay speech is perceived, including speech defects, colds, diseases and injuries.

Michael Sibley



Pierre Faure President of the ARIL Adioint au Directeu

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FINANCIAL TIMES

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■ BERLIN CONCERT .

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Cinema/Nigel Andrews

Spots knocked off the opposition

101 DALMATIANS Stephen Herek

STAR TREK: FIRST CONTACT Jonathan Frakes

> ACTS OF LOVE Bruno Barreto

STEAL BIG, STEAL **Andrew Davis**

THE LAST OF THE HIGH KINGS **David Keating**

hose intimate with the world of showbiz will know that there is a saying among dogs and children: "Never act with Glenn Close." Tots have had the good sense to stay away from 101 Dalmatians. But piebald puppies are all over the screen. With plaintive eyes, puckery snouts and lovable ill-coordination they strive to make the audience's "Ooh aahs" sound louder than the pantomime hisses inspired by Close's Cruella De Vil. But this is a one-creature movie, and the one

creature sees off the opposition. Close has not been this good since her last starring villainess, in Fatal Attraction. Her Anthony Powell-designed clothes make Joan Dynasty Collins seem like a bag lady: frenzies of geometric delirium in loud colour, topped by electrocuted-looking hair frizzed into one black side, one white. Close must also have studied at the Fenella Fielding school for an advertisement for the trade. rococo lip movement. Moues, pursings and silent snarls are added to every line-reading. And she is possessed of an excellent acter's French name a frightening thing in a villainess: totally credi-

to steal their Dalmatian litter. (So Contact.

good for coats.) We never doubt that she would hire two rewardhungry, accident-prone hit men (Hugh Laurie, Mark Williams) whose brains are in their wallets. And we are entirely confident that at work she would favour an assistant (Tim McInnerny) whose response to her contemptuous "What sort of sycophant are you?" is "What sort of sycophant would you like me to be?

Everything else in this live-action remake of Disney's most popular cartoon feature is as piebald as the title animals. Moments of wit or idiot charm - Americans still think of London as a wonderland of old-world rooftops winking across a glimmering Thames contend with longueurs. Time particularly drags its paws in the action showdown, set in and around Cruella's Gothic manse. The script by John Home Alone Hughes insists on yet another of his crook-punishing mirth mara-thons, with Laurie and Williams enduring the electrified fence, the falling elk's head, the sewage pool and the thousand ills that theft is heir to.

It is Close who tips the film towards watchability. "I have great respect for the character of Cruella De Vil" the actress has said and we believe her. No other attitude would have ensured that a cartoon gorgon preserves her cartoon gorgonishness while also emitting the wildhaired, wildmoue'd charm of true human

On matters tonsorial, barbers have for decades despaired at TV's Star Trek series. Its first hero William Shatner wore disposable hair, its new hero Patrick Stewart wears none at all. What

In addition Stewart's pate gleams like a geodesic dome. indicating together with his charamount of brain activity. Unlike Shatner's campily beloved Kirk. We believe that this demonic fur Stewart's Jean-Luc Picard is a fancier longs to break into the Prospero or Sartre in outer space. London mews home of newlyweds And the cerebral authority pays Jeff Daniels and Joely Richardson off handsomely in Star Trek: First



the dialogue track. "Sir, the Vortex is collapsing" says someone. "The Borg!" cries someone else. "Mid-21st century civilian clothing!" snaps Stewart. And they briefly kit up in old-fashioned clothes - for the plot has begun in the 24th century - to begin battle against the evil Borg (plural) and their wire-sprouting, bald-pated leader Alice Krige (more despair for hairdressers) by helping the

well re-ignite the future by ... And so on. The plot is unexplainable, you just have to be there. What makes this a stronger showing than the last trekky epic is Stewart's growly dominance and the script's determination to underpin it. We have references to Moby Dick. And we have space battles and explosions, very spectacular, taking second place to the emotional battles and explosions going on in Picard's face.

rocket scientist James Babe Crom-

conductor Esa-Pekka Salonen,

who enjoys an uncanny sympathy

hell is still breaking out all over deep in Texas, where cinematog- crastination into tragicomedy. rapher Declan Quinn (Leaving Las Vegas) aims a late-afternoon light at characters striving to postpone the twilight of their own lives. Farmer and small-town schoolteacher Hopper, listlessly pursuing a 20-year romance with fellow teacher Amy Irving, tumbles almost literally into an affair with blonde pupil Amy Locane, attracted to the hayloft above the stall where Hopper lets her berth

her horse. Jim Harrison novels have given us two outsize film follies, Revenge and Legends Of The Fall. Director Bruno Barreto and screenwriter Ed Jones play this tale quietly and Hopper more quietly, indeed almost soundlessly. Yesterday this actor mugged and everything from The Bible to raved with an eyepatch in Waterworld. Today he lets us peer at a man whose thoughts seem to be land.

Actor Dennis Hopper feasts on folk meeting the anguish of their Beanfield War.

Music in London/David Murray

An essential part of it all is the certo, in quite another vein, verted, with echoes of old church

where the soloist struggles comi-

cally to find his voice, competes

Ligeti's clocks and clouds

This is the seventh movie and scraps in Acts Of Love. We are middle years. The film turns pro-Nothing is sadder, nothing funnier than the scene where Hopper impulsively, theatrically strips to the buff, standing bright-lit in Irving's front parlour in a bid to throw some adventure into their romance. Irving looks, pauses and then glides off into the next room with "I need to think a minute."

> In Steal Big, Steal Little it is hard to follow anyone's emotions or motives. Every actor, not least Andy Garcia in a double role as twin brothers who grow up into enmity, seems bemused, as if wondering where the storyline has gone. It has probably been swallowed by the cod-Latino music. Violins shake, trumpets shimmer and maracas threaten as the evil Garcia fights to push the good Garcia off the farmland deeded by their adoptive Mom. In the procrushing his skull even as the cess dozens of innocent peasants Texas sky pushes down on the will be unhoused, whose only are no doubt due to his checking There may be sadism and We feel the pulse of ordinary this belated rip-off of The Milagro

Then again perhaps it a "modern Tom Jones," as director and co-writer Andrew Davis (The Fugitive) has styled it. Either way it rollicks nervously between ecomelodrama and broad comedy, between underacting (Garcia) and heavy mumming (everyone else) Alan Arkin shouts as the good lawyer. Joe Pantoliano goes mad and talks to parrots as the bad lawver. And veteran Hollywood | from previous revivals. teeth-grinder Kevin McCarthy, as a corrupt bigwig, looks as if he is still in paranoid overdrive 40

years after meeting those Invasion | credit. His singing was Of The Body Snatchers pod people. The Last Of The High Kings is an affable Irish film about one of dignified. Sweet was a those summers where "everything disappointment. She sang changes." Catholic Boy (Jared the notes: basta. There was Leto) grows up and discovers sex. neither ice nor fire - just a Mum (Catharine O'Hara) rails flash of the frightened little about Protestant trollops. And girl running to daddy after Dad (Gabriel Byrne, who also co- the riddle scene, hoping to produced) is a travelling player, whose long absences from home all-conquering male. crime is to have wandered into out how many near-identical rite- masochism aplenty in of-passage stories are being filmed | Turandot, and a whole in the rest of Ireland.

Opera **Tired** looking Turandot

t would be interesting to know what Andrei Serban thinks of his . 12-year old Royal Opera production of *Turandot*, nov that it has been wheeled out for another revival at Covent Garden. It was long regarded as a stunner, a highly visual display without excess spectacle. On Tuesday it looked unsubtle and undermotivated – in short, several notches less

Every production, even a crowd-pleaser like this. needs the hand of the original director at som point in its life to refresh it. remould it and recreate the spell. This is what the Serban *Turandot* needs Despite the dutiful attention of the revival director. Susanna Best, it now looks dated and artistically (if not commercially) redundant.

Of course, we have to make allowances. The Royal Opera doubtless has more important things on its mind this week, what with Domingo's return and tonight's televised fund-raising gala. Nuccia Focile was announced as severely indisposed – though she made a very respectable, albeit fragile stab at Llu. And a production can only undergo a limited numbe of cast changes before it begins to don an all-purpose

ut the two other principals, Sharon Sweet in the title role and Giuseppe Giacomini's Calaf, are well versed in this production Despite some touch-and-gr moments in Act 2. Giacomini emerged with properly robust, his be saved from the

subtext about the castrating female, but this revival offers little more than Bright, innocent fragments jostled decorative artifice, a brittly against one another. The Gozzified view of the orient Scherzo became a grindingly dis- in which neither chorus nor sonant, disorienting collage of choreography has any popular bits, like Benjamin Zan- dramatic function. The Act 2 Lin's suicide fails to move. too blunt.

> The only redeeming feature is Daniele Gatti. He is a real theatre conductor. because he knows exactly how to raise the tension and relax it. The choral climaxes were thrillingly pulled off, the formal confrontations unerringly paced: Puccini's orchestration gave off its full perfume. Gatti is also a good singers' conductor, and an asset to the company. So is John Dobson's Emperor, an eloquent portrait of

Goldner for the Ashmolean

eorge Goldner, the Museum of Art, New York, has been appointed as the new director of the Ashmolean Museum, Oxford. Goldner, 53, is widely regarded as one of the most aggressive and successful curators in the US, having revived the Metropolitan's moribund drawings department in the three years since his appointment.

The appointment of an American to head a British institution is a reversal of the usual trend, and is embarrassing to the British art historical establishment.

Goldner said the opportunity to move to the Ashmolean was "too good to pass up." He will assume his position in Oxford in autumn 1997, when current curator Christopher White retires.

n the South Bank, Gyōrgy Ligeti's music "Clocks and Clouds" - a title bordrawings curator for rowed from Karl Popper (every the Metropolitan cloud is a "clock", a seemingly indeterminate mass governed by intricate rules) - makes a curious "series": we have just heard half of its Part 1, on Thursday last and Monday, with the rest to follow in February, while Part 2 has to

The South Bank's Ligeti festival in 1989 was more closely collected. This time round, however, the concerts are linked to a grand recording project instigated by Vincent Meyer, the Philharmonia's president and a laudable Maecenas. By 1998, when Ligeti turns 75, his entire oeuvre will be available on 13 Sony Classical CDs: a splendid tribute to the composer, and a source of endless delight and tantalisation for

is being celebrated to excellent purpose. await the 1997-98 season.

music-lovers.

ment or a kerfuffle of muted brass - soon takes over in its own right, with its own internal logic. So too

with Ligeti's music and has the against orchestral voices to make technique, and the ear, to draw it his mark, and finally slips away from the Philharmonia to the into choked silence. most beautiful effect. Thursday's performance of San Francisco igeti's "micro-polyphony", Polyphony, one of Ligeti's more Voices ceaselessly inter-"hard-edged" - and best - pieces, woven on a scale so tiny

glowed with magical chiaroscuro. that the ear cannot quite make out what is going on (the Though it is easy to hear as a nocturnal city soundscape (Ligeti "Clocks and Clouds" model), has never disdains cnomatopoeia), the never made a greater impact than in the mid-1960s Requiem that we fascination of his meticulously calculated sounds - quietly overheard on Monday. The words are lapping and melting occasionally drawn selectively from the canonstabbed through by a solo instruical text: a "Requiem aeternam", a Kyrie, a "Dies irae" and a "Lacrimosa". Through micro-polyphony, distinct levels of density are do the sounds of his Cello Con- established and expressively sub-

"modes". We heard devout laments compounded from many individual voices, and a multiply fractured vision of the Day of Wrath in a stern post-Modernist

Both programmes were enhanced by cunningly matched "safer" works. Thursday's Ligeti pieces were followed by Mahler's Symphony no. 4; going out at the interval, I was momentarily surprised to see a lot of people already hanging about in the bar, before I twigged. If they had been prepared to brave Ligeti, some of them might well have been seduced.

Salonen's Mahler Four was very taking but defiantly non-Viennese, rejecting rubato espressivo.

der's diabolical version of the silk screen looks cheap; Mahler 9th Scherzo a year ago. Before the Ligeti Requiem on and the final appearance of Monday. Salonen chose a perfect | her funeral trolley is just foil: Debussy's sweetly, hierati-

cally elevated music for d'Annunzio's Martyre de Saint-Sébastien, an unhealthy and ultra-camp ballet-oratorio that even Neil Bartlett would hesitate to revive in its original form. Debussy's heart was never quite in it; his first musical ideas, decidedly haunting, decline eventually toward Hollywood and heavenly choruses. So much the better, though, to

set off Ligeti's severe, gentle lines, with individual murmurs coalescing briefly into devout collective pleas before subsiding again. Where Debussy was sexy, Ligeti's | frailty. Requiem was clear-eyed and brac-

Andrew Clark

INTERNATIONAL

AMSTERDAM

CONCERT Concertgebouw Tel: 31-20-6718345 Leonidas Kavakos and Peter Nagy: the violinist and planist perform works by Ravel, R. Strauss, Koukos and Bartók 8.15pm; Dec 15

ANTWERP

OPERA De Vlaamse Opera Tel: 32-3-2336808 De Vlaamse Opera and il-Fondamento: with conductor René Jacobs perform Blow's Venus and Adonis and Purceil's Dido and Aeneas. Soloists include Janice Hall, Daniel Mobbs, Susan Maclean and Ned Barth; 3pm;

Mozert-Trio Berlin: with planist

Christina Bieldom and tenor Matthias Bieldom perform works by Zemlinsky, Comelius and Mendelssohn; 7.30pm; Dec 13 Philharmonie & Kammermusiksaa

Tel: 49-30-2614383 Berliner Symphoniker: with conductor Peter Schwarz and the Berliner Cappella perform works by Stravinsky, Respighi and J.S. Bach; 8pm; Dec 15 Sinfonie Orchester Berlin: with conductor Borislay Iwanov perform works by Haydn; 8pm; Dec 14

■ BOLOGNA

OPERA Teatro Comunale di Bologna Tel: 39-51-529901 Otelio: by Verdi. Conducted by Christian Thielemann, performed by the Orchestra e Coro del Teatro Communale di Bologna. Soloists include Henning Brockhaus, Josef Svoboda, Sárka

Heinová, Piero Monti and Marta

Ferri: 3,300m; Dec 15 BRUSSELS

EXHIBITION Palais des Beaux-Arts Tel: 32-2-5078466 Karl Blossfeldt exhibition of works by the German photographer Karl Blossfeldt (1865-1932), who is known for his detailed black-and-white photographs of flowers and plants. The display features approximately 200 original photographs; to Jan 5

Théâtre Royal de la Monnaie Die Zauberflöte: by Mozart.

Conducted by David Robertson, performed by La Monnaie. Soloists include Ernst Theo Richter and Judith Vindevogel; 7pm; Dec 13, 15 (3pm)

■ COLOGNE CONCERT

Kölner Philharmonie Tel: 49-221-2040820 Gürzenich-Orchester and the Kölner Philharmoniker: with conductor James Conlon and soprano Adrianne Pieczonka perform works by R. Strauss and Janácek; 8pm; Dec 15 (11am) , 16, 17

 Juliane Banse and Wolfram Rieger: the soprano and pianist perform works by Schubert; 8pm;

■ COPENHAGEN

OPERA Det Kongelige Teater Tel: 45-33 69 69 69 Masquerade: by Nielsen. Conducted by Thomas Dausgaard, performed by the Royal Danish Opera. Soloists include Stephen Milling, Kari Hamnoy and Johan Reuter, 8pm; Dec 13

LILLE

OPERA Opéra de Lille Tel: 33-20 06 88 D4 Le Nozze di Figaro: by Mozart. Conducted by Jean-Claude Malgoire (Dec 12) and Mirella

Giardelli (Dec 14), performed by La Grande Ecurie et La Chambre du Roy and the Choeur Régional Nord-Pas de Calais. Soloists include Nicolas Rivenq, Danielle Borst, Sophie Marin Degor and Hubert Claessens; 8pm; Dec 12,

LONDON AUCTION

Sothebys; Parke Bernet & Co. Tel: 44-171-4938080 Old Master Drawings: The Collection of Marcel Jeanson. Auction of omithological watercolours from the Jeanson Collection. This is the third part of this collection to be put on sale, following two sales conducted by Sotheby's in Monaco in 1987 and 1988, which raised £4m and £2.7m respectively; 2.30pm; Dec

CONCERT

Tel: 44-171-6384141 Requiem: by Verdi. Conducted by Sir Colin Davis, performed by the London Symphony Orchestra and the London Symphony Chorus; 7.30pm; Dec 15 St. John's, Smith Square Tel: 44-171-2221061 Holst Singers: with conductor Stephen Layton perform works by Holst, Britten and others. Soloists

include organist David Goode; 7.30pm; Dec 14 Wigmore Hall Tel: 44-171-9352141 Westminster Cathedral Choir. conducted by James O'Donnell

perform works by Victoria,

Poulenc, Howells, Gabrieli,

Sweelinck, Warlock and others. Soloists include organist Andrew Reid: 7.30pm: Dec 14

OPERA London Coliseum Tel: 44-171-8360111

 Les Pêcheurs de Perles: by Bizet. Conducted by Michael Lloyd, performed by the English National Opera (in English). Soloists include John Hudson, Mary Plazas, Ashley Holland and Mark Richardson; 7.30pm; Dec 13

NEW YORK **AUCTION**

Sothebys Tel: 1-212-606-7000 The World of Movie Posters:

sale featuring 285 posters spanning more than 60 years of movie history. Among the highlights are posters from the Golden Age of Hollywood with Images of Casablanca, Gone with the Wind and The Maltese Falcon, portraits of Hollywood's most popular divas, including Mariene Dietrich, Bette Davis and Marilyn Monroe, and animation posters with the Disney characters Snow White and Pinocchio; 2pm; Dec

CONCERT Camegie Hall

Tel: 1-212-247-7800 A Holiday Tradition: by Henderson. Conducted by Mary Ann Dutton, performed by The Phoenix Chorale: 8pm; Dec 13, 14

EXHIBITION The Metropolitan Museum of Tel: 1-212-879-5500 Christian Dior: the exhibition presents the achievement of Christian Dior, who in the 10 years from 1947 to 1957 created the foundation of post-war feshion. Beginning with the 1947 New Look, Dior gave the post-war period its most important fashion icon of renewal and optimism. The exhibition is drawn primarity

PARIS

to Mar 23

CONCERT Théâtre des Champs-Elysées Tel: 33-1 49 52 50 50 Orchestre National de France;

from the collection of The

Costume Institue and includes

more than 80 pieces; from Dec 12

with conductor John Nelson and soprano Felicity Lott perform works by Strauss, Offenbach, Lehár and Messager; 8.30pm; Dec 14

■ VIENNA

7.30pm; Dec 15

CONCERT Wiener Kammeroper Tel: 43-1-5120100 Ethan Freeman: the tenor performs works by Brahms. Ravel. Sondheim and others:

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WORLD SERVICE BBC for Europe can be received in western Europe on medium wave

EUROPEAN CABLE AND SATELLITE **BUSINESS TV** (Central European Time)

648 kHZ (463m)

MONDAY TO FRIDAY NBC/Super Channel:

07.00 FT Business Moming

10.00 European Money Wheel Nonstop live coverage until 15.00 of European business and the financial markets

17.30 Financial Times Business Toniaht

ÇNBÇ;

08.30 Squawk Box

10.00 European Money Wheel 18.00

Financial Times Business Tonight



Peter Martin

Branded by success

Companies would be wiser to spend their extra cash on marketing than on technological research, a US study on personal computers suggests

A related point is that -

the loss of its status within

Compaq then others

marketing "and in some

cases also positioning them-

The second conclusion is

the one that bears on the

marketing/technology

debate. In economists

terms: "Having a brand

name conferred a large

advantage in the sense of

shifting out the demand

function, whereas being

early at the technological

In other words, being a

technology leader protected

you against competitors

that did not offer such

advanced products. Building

a brand name not only pro-

tected you from unbranded

competitors but also

allowed you to sell more at

any price point than you

otherwise would. You could

choose to use this advan-

tage by selling more at the

same price or by selling the

same number of machines

selves at the frontier".

Who is more important to the company: the marketing director or the head of research and development? To put it another way: in a business downturn should you slash the advertising budget or shut the labs?

The question has haunted business since the dawn of the advertising age. Was the person who wrote lvory soap's legendary slogan "It floats!" more important than the chemist who made it lighter than water? Was the copywriter who came up with "A diamond is forever more or less important than the mining engineers who devised new ways of getting gems out of the ground? Was MCI's Friends and Family discount programme more important in the early 1990s than AT&T's ownership of Bell Labs?

The debate has now come a step closer to resolution, judge that in the late 1980s. thanks to an interesting only IBM, Compaq, AT&T case study* published by the National Bureau of Economic Research in the US. Its conclusions are couched in suitably cautious academic prose. But to the brash outsider, there is a clear message: Marketing Matters More.

The study examines the US market for IBMcompatible personal computers in the late 1980s, around the time of the introduction of the 386 chip. But before you yawn and turn the page - not just another article about PCs, but one about models that are now hopelessly obsolete - consider the unusual characteristics of the business.

The PC market of the late 1980s had low barriers to entry, transparent pricing, a high degree of competition. rapid price evolution and clear differences between products based on both technology and brands. In short, it offered almost laboratory conditions to examine winners and losers. The three authors of the NBER study - Timothy Bresnahan, Scott Stern and Manuel

most of their opportunity. When the 386 chip was

launched by Intel, exploiting it to build a new generation of PCs required considerable technical skill. PCs based on the new chip were also much more expensive than ones based on its predecessor, the 286. So the two generations of machines coexisted for a while. There was a clear market distinction between those machines with frontier technology (in the authors' The other division in the

market, the authors say, was between branded PCs and non-brands. A nationally publicised brand promised PC buyers reliability, service and support. Although there are now many established suppliers of branded PCs, the authors and Hewlett Packard had brand status.

The existence of these two types of differentiation created four market clusters: Branded/frontier - such as the 386 PCs made by Compaq and IBM, selling in 1988 at an average price of clusters. Spending to \$7.577 (£4.620). Non-branded/frontier

ers, selling at \$5,130.

Branded/non-frontier such as the 286 machines made by AT&T and Hewlett Packard, selling at \$2,924.

 Non-branded/nonket dominance was not due This last group, selling at an average price of \$2,574, its own cluster, as first had by far the most competitors - the small companies invested heavily in brand

manufacturing what were known as "clones". Most machines sold, however, fell into the branded/nonfrontier cluster. Notice the way prices start off very high (for machines enjoying both technology and brand advantages) and fall steadily as those advantages are lost. The NBER authors apply

elaborate statistical analysis to the sales of over 120 makes and models of PC in 1987 and 1988. They come to two main conclusions. First. they say, competition in PCs was "largely localised within clusters". In other words, new entrants could expect to take market share from within the cluster they were targeting but would have little impact on the sales of companies in other achieve either a technology or a brand advantage pro-

> at a higher price. Either The authors point out this finding applies only to a particular market in a particular period. But if it is more generally true, then as long as you are spending enough on technology to allow you to compete at all, an incremental dollar is better spent on a brand name than in the labs. Before you sack the peo-

> ple with the plastic pocket protectors and bus in a load of marketeers with red socks, a word of caution. Brand-building is only partly about advertising. It is also about delivering on the promise the advertising holds out. That means spending on service, support

Trajtenberg – make the such as the 386s made by tected the companies that and design – some of which most of their opportunity. small high-tech manufactur- followed this approach at least, is technology. followed this approach at least, is technologyagainst competition from less ambitious rivals. What is more, being a

technology leader can itself be a powerful reinforcer of contrary to conventional wisdom - IBM's loss of marbrand identity. Compaq's ability to take market share to the flood of clones but to from IBM in the branded/ frontier cluster was closely linked to the sense among influential consumers that Compaq had wrested tech-nological leadership from IBM. It was not just that the machines were better: the brand was also better because Compaq was now setting the technological

> Still, there are some potentially powerful lessons for all companies in this study. The first is that markets may be more segmented than you think. This has its good side – pro viding more scope for rais-ing prices, for example, than if you are subject to competition from adjacent clusters but it also has drawbacks. You may find yourself confined to a small and unprofitable cluster, unable easily to break out into the lucra-

tive clusters next door. The second lesson is that technology spending is most valuable when it establishes a clear distinction between your product and its rivals; when it can be exploited effectively to reinforce the brand proposition. If it is not contributing in these two ways, it deserves close scrutiny.

And the third lesson is that creating a true brand is one of the most powerful things any company can do to enhance its market power. We knew this already, of course - but now we have a load of equations

*Market segmentation and the sources of rents from innovation: Personal computers in the late 1980s. Working Paper 5726. NBER. 1050 Massachusetts Ave, Cam-USA. Fax: +1-617-868-2742

BOOK REVIEW Sir William Mcoll

THE CASTLE OF LIES: Why Britain must get out of Europe Christopher Booker and Richard North. Duckworth, 244pp, £8.95

Flawed exposé of EU nonsenses



continues its unique service

to the construction of the European Union. In the absence of effective scrutiny of EU legislation. Booker and North expose some of the nonsenses of drafting and enforcement.

Their credo is that a "Sys-tem" called "Brussels" imposes on member states and their businesses a bureaucratic framework which is divorced from the real world. The UK compounds the disaster by applying these unrealities with unique ingenuity and

Even if the Brussels "System" is not wholly responsible for the mess which the national implementers make of things, it starts the whole process. The solution for the UK is to "get out of Europe" as the book's subtitle puts it then there will be nothing

for Whitehall to foul up.

The catalogue of silliness should be Christmas reading for all practitioners - even though they are beyond redemption, according to the authors. But the service Booker and North render would be improved if they had the faintest notion of how "Brussels" works.

They would not be obsessed by such fantasies as officials in DGII (the directorate general for economic and financial affairs) who are determined to "push through" a new company law on takeover bids, among the "diktats passed down from Brussels". Commissioners and their officials cannot

dictate Union law. That small band of fans of Committee - the consultative body which represents

This latest prised to find it elevated to a sional anti-dumping duties, the Booker- Committee of Permanent the Council of Ministers. North team Representatives Students of four pillars: the three communities and the common foreign and security policy.

Such "amateurish inaccuracies" (in Booker-North language) sap confidence in the authors' judgments. But the fundamental weakness of the book is the new airing it gives to the authors' uncovering of conspiracies among "mad officials" (the title of an earlier book).

The "torrent" of laws coming out of Brussels divides into two streams, uncharted by the authors. One consists of policy innovation and major application measures. None of that is "imposed" on the member states or dictated by "Brussels". It must be approved by the Council of Ministers which gives governments of member states

the opportunity to filter it.
The other stream is made up of directives (rare) and regulations (frequent) enacted by the Commission under the powers it has been

The vast bulk of these regulations concerns the management of the organised agricultural markets. If you have organised markets (and whether you approve of them or not is a different question) you have to manage them day in, day out. There can be no question of parliamentary scrutiny. There is not time and the information is marketsensitive.

If these and other decisions over the allocation of funds and on competition issues are excluded, the the Economic and Social Commission adopted just one directive (technical adaptation concerning satelworkers, employers and lob- lite communications) and 11 ringing FreeCall 0500 418 419 bies such as farmers and the regulations in 1995. Six of (UK) or +44 181 964 1251 (out-

offering from status second only to the subject to confirmation by To Booker and North, min-

European affairs will like- isters are puppets and wise be surprised to learn rubber-stampers. maniputhat the Union consists of lated by power-hungry offi-Agenda papers sent to

ministers before meetings in

Brussels and the briefs for

cabinet committees include

both the humdrum stuff and

the key issues of the Com-munity. Booker and North quote Lord Callaghan recalling the time he spent as foreign secretary in the 1974 Labour government debating canned fruit salads. (True: how many cherries in the tin before it stops being salad?) Garret FitzGerald, when he was Irish foreign minister. was so meticulous that he would even add up the columns in statistical annexes to see if the sums were right. The truth is that national officials in Brussels are under the spotlight and under close political control. I twice went beyond my briefs as the UK's deputy permanent representative. Once it was a conscious, calculated risk and came out right. The other time, a misreading on my part properly

permanent representation was to watch their rears. Booker and North predictably invoke Kafka, Orwell and Burke. But they miss Burke at what for them is his most apt, and for us is a timely reminder: "The age of chivalry is gone. That of sophisters, economists and calculators has succeeded; and the glory of Europe is extinguished for ever."

earned a sharp rebuke. My

The author was directorgeneral of the Council of Min-The Castle of Lies is available from FT Bookshop by

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RECRUITMENT OF CONSULTANTS FOR THE PRIVATISATION OF **PUBLIC SECTOR ENTITIES**

Privatisation Commission plans to undertake the privatisation of entities in (a) the banking and financial; (b) oil and gas; (c) power; (d) telecommunications; (e) infrastructure; (f) industries; and (g) transport sectors. The Commission has reorganised its professional resources, and is looking for individuals with outstanding qualifications and experience to spearhead the privatisation efforts, for these senior-level positions.

The candidates for these positions in different sectors are expected to possess preferably a Ph.D. degree in the relevant discipline, with a strong background in development finance or economics. These positions require extensive hands-on professional experience in the respective areas, in the fields of restructuring, privatisation, reforms, investment planning, banking, development finance, and sector regulation. Preference would be given to Pakistani nationals, having practical experience of privatisation gained in international organisations. Strong analytical skills, and familiarity with computer-based systems would be required, in the performance of the respective responsibilities.

The works entail, among other things, the following: (a) implementing the privatisation programme of the government, with regard to the restructuring and privatisation of public-sector entities; (b) liaison with the Financial Advisers/consultants and government officials in facilitating the completion of the transaction; (c) assisting in the process of financial, technical and legal due diligence, and in the structuring of the transactions; (d) assisting in the creation/development of the enabling environment; (e) Preparing summary reports and recommendations/plans/strategies for consideration and approval of the government; and (f) responsibility for all other activities related to the smooth and orderly completion of the transactions.

Privatisation Commission provides a professionally challenging environment, and task-oriented persons willing to work under a demanding time-schedule are encouraged to apply for the above position. A one-year contract would be offered initially with a strong possibility of extension. Renumeration will be offered which will be commensurate with the experience and qualifications of the selected candidates.

Interested applicants should submit applications, alongwith a copy of the CV, to the Secretary, Privatisation Commission, EAC Building, 5-A, Constitution Avenue, Islamabad, latest by December 22, 1996

LETTERS TO THE EDITOR Number One Seminarate Bridge Education SEL SEL

Fare keen to encourage letters from readers around the world. Letters thay be fired to 444 171-873 3938 (please set fax to fine) e-mail: letters editorieft.com Published letters are also available on the FF web site, bury/vaya.FT.com

Route to motoring in harmony

cogently on the way in which Bob Lutz as president at Chrysler agreed to work under Bob Eaton as chairman and thereby helped build one of the most effective auto-company management teams of the 1990s "Motoring on", December 11). Surely there must be a esson here for the Daimler-Benz supervisory board in

the run-up to the company's

January 23 meeting concerning the proposed merging of

Mercedes-Benz with D-B? With an astonishing and revolutionary series of innovations, Mercedes' Helmut Werner has proved himself a first-class product man in the Lutz style. Yet he seems to be the older manager whom D-B chairman Jürgen Schrempp would like to see derailed so Schrempp can be in sole command of a remerged company. It will be

the supervisors but also of Schrempp himself to find a Chrysler-like solution that can keep two capable and complementary drivers at the wheel of Daimler to help it motor strongly through a critical period of change.

Kari E. Ludvigsen, Ludvigsen Associates. 73 Collier Street. London N1 9BE, UK

Senator ably qualified for the job

From Mr Christopher

Sir, While in Washington last week, I was astonished to read Jurek Martin's analysis ("Clinton team short on global vision", December 6) of President Clinton's new foreign policy team. I do not know in which circles he moves, but comments such as "short on vision", "disappointment" and "dissatisfaction" made me wonder if I was in Washington at all.

His comments about Republican Senator William Coben were rather odd. Acknowledging that "he knows defence well as a longstanding member of the

intelligence committees", he nonetheless added that "his reputation rests more on a handful of spy novels he has written than learned dissertations on defence theory" as if that were some panacea for attaining high office. (How many of those who eventually became secretary of defence could Mr Martin

such a reputation?) The point is that Senator Cohen was chosen not for the spy novels he's written, nor for his dissertations on defence theory, but for his reputation as one of Capitol Hill's most knowledgeable

name as having achieved

who has spent 24 years in Congress. It should be noted that his experience also includes the chairmanship of the subcommittee on seapower, and he is a member of the air/land subcommittee, the subcommittee on strategic forces and the subcommittee on readiness. He also brings his vision of the reforms required to give forces a range of options regarding flexible responses

Christopher Dreyfus, Flat 3, 90 Onslow Gardens. London SW7 3BS, UK

and greater mobility.

Vertical rather than horizontal integration

From Mr Mark Moran. Sir, I was surprised to see Lex refer to the integration of brewers and public houses as a form of horizontal integration ("Trouble brewing", December 10). Such integraation of different stages of the supply chain. As such, it represents a

form of vertical integration requiring different bench-

marks to measure its

Mark Moran.

47 Wellington Buildings, Wellington Way, London E3 4NA, UK

When safe is not wholly safe

From Mr Peter Rowbrey-Evans.

Sir, Your leader "Of genes and faked beans" (December 6) uses the argument that if a government authority considers something entirely safe for people to eat, it must be entirely safe to eat; and, consequently, any reluctance to eat the product is due to inadequate public

education. Have we learnt nothing from the BSE flasco? Did not entific advisers originally reassure the country that beef was entirely safe to eat, but are now not so sure that

Because I am privileged to be reasonably well educated in general science and mathematics I realise that when a government representative says something is safe, what is meant is that there are considered to be no significant indications to the contrary. It does not mean something is in fact safe. By not labelling all products containing, or possibly containing, genetically-modified food the public are being denied a key choice.

On seconds thoughts, your leader was right: there should be better public education, but by school teachers and not by certain politiclans and industrialists.

Peter Rowbrey-Evans, 30 Lymington Road, West Hampstead, London NW6 1HY

Oxford already showing management studies commitment

From Mr A Hopwood, Mr R Knight and Mr C Mayer. Str, in their article "Dons in high dudgeon" (December 7/8), Richard Wolffe and Della Bradsbaw describe how the Oxford School of Management is currently sited in the Radcliffe Infirmary. What they do not mention are the extensive facilities available to management students at Oxford

both within the Radcliffe

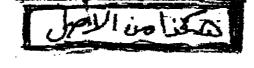
Infirmary and at Templeton

College. Within the Radcliffe Infirmary, the university has created a suite of lecture, seminar, FT and common rooms, incorporating some of the most advanced teaching facilities, specifically dedicated to MBA students. Other postgraduate students and executives on short courses have access to high quality teaching and library facilities at Templeton College, which is set in a tranquil 37-acre wooded site.

This is part of a carefully planned development involving the establishment of the new MBA and postgraduate research degrees prior to a move to the new business school in the centre of Oxford, and the expansion of the thriving Oxford executive education programmes at Templeton College. The university and the college are investing substantial amounts in the provision of these facilities which is

indicative of their commitment to the further development of management studies

Anthony Hopwood, director of the Oxford MBA. Rory Knight, Dean of Templeton College, Colin Mayer, acting director, School of Management Studies University of Oxford, UK



COMMENT & ANALYSIS

FINANCIAL TIMES Into uncharted territory Number One Southwark Bridge, London SE1 9HL

John Ridding looks at the daunting challenge facing the shipping tycoon selected as Hong Kong's first post-colonial governor

Dublin à la carte

Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700 Thursday December 12 1996

Proliferating cliches about the position of the bigger men hours of truth and moments of ber states; some expansion of decision are the surest indicator areas covered by qualified that Europe's interminable constitutional debate is reaching of the Commission; and an another climax. In fact the endgame is not tomorrow's European Union summit in Dublin but June 1997 in Amsterdam ~ the deadline the leaders have set for wrapping up their intergovernmental conference (IGC). But thanks to the efforts of the Irish presidency, the debate is at least taking shape.

Two broad observations occur. First, the EU is at one in its wariness of sweeping constitutional change so soon after the looser structures of interthe Maastricht ordeal.

The Irish sketch for a revised treaty reflects a modest consenmachine: strengthening foreign policy via the council secretarat, for example, and enhancing Commission powers in trade negotiations. Proposals for entirely new areas of common action - such as employment are gesture politics. And despite differences over extending EU powers to the sensitive area of should be able to unite on co-operation against crime.

Second, great uncertainty still supposed to be the central purpose of the IGC: reforming the be held by May. EU's institutions to prepare them to take in members from it is not in the hysterical frame central and eastern Europe.

left to the horse-trading in the Nevertheless, reform is essen-

effort to clarify in which policy areas a more flexible approach

to integration might apply. The latter subject is particular larly contentious, but it ought to be possible to devise rules permitting some member states ing the rights of others. The question is whether groups of states should be able to use cantral institutions such as the

governmental co-operation - for activities which do not involve the union as a whole. The oversus on the need to oil the EU riding imperative must be to avoid an à la carte approach to the single market.

These issues need to be addressed soon if the IGC is to be completed next year - as it must be to avoid becoming tangled up with decisions on mone tary union, and creating an almighty Euro-muddle.

There is one big problem. immigration, member states Serious institutional negotiations cannot be joined while one related questions such as member - Britain - refuses to contemplate any extension of majority voting. Hence the June surrounds the issue that was 1997 deadline, conveniently after British elections that must

The party that wins, provided of mind currently afflicting Mr Sensibly enough, voting John Major's Conservatives, weights and the veto have been ought to be able to agree to much of the agenda now on the IGC's final stages next year. table. The hope must be that whoever is prime minister will tial if the EU is not to grind to a see the sense of quickly doing a halt after enlargement. At a deal and allowing Europe to get minimum that will mean a shift on with more important busi-

Paying the price

In censuring Mr David Willetts, of the House of Commons. regulation. Of itself, however, this is not enough to persuade a sceptical public that MPs are to be trusted to sit in judgment on their peers.

Maria

S 1104

whills

The committee, a creation of Lord Nolan's investigation into standards in public life, intimated that Mr Willetts, then a junior whip, had improperly sought to influence an investigation into a fellow Tory MP. Its report does not accept his evidence as "accurate". Dissembling had substantially aggravated the original offence. Voters may conclude that while the MP's action owed much to naivety his explanation owed more to sophistry.

Many Conservatives consider this verdict harsh. The charge against the paymaster general dated from a time when he was new to the whips' office. Inexperience and eagerness to please clearly played their part. Nor is Mr Willetts, cleverer than he is streetwise, among those whom one might associate with the charges of sleaze which have so damaged the reputation after the general election.

the paymaster general, the There is, though, a danger in House of Commons committee such mitigation. The very fact on standards and privileges has that colleagues suggest his only taken a small step towards crime was to get caught is evirestoring confidence in parlia- dence of a damaging complament's capacity for self- cency about the proper conduct of MPs. That Mr Willetts was far from alone in thinking it was acceptable for a party whip to intervene in a quasi-judicial investigation is hardly a justification for his actions. Wrongdoing cannot be condoned

because it is widespread. This is also a particularly important moment for parliament. Public faith in its integrity is at a dangerously low ebb. If the post-Nolan system is not seen to work, demands for judicial oversight of MPs will become unanswerable. For this reason. Mr Willetts is wise to accept he should pay a price for his misdemeanour. It would have been better had the committee suggested such a penalty. Sadly its commitment to a cross-party consensus did not

extend that far. So it was up to the paymaster general. His resignation from the government shows there is still some honour in politics. Incidentally, it should also facilitate his speedy return to the

stand up for the autonomy promised to the territory in Sino-British handover treaties. The Democratic party, the largcerns in Hong Kong ahead of the est group in the territory's elected legislature, warns that Mr handover. Tung's appointment by a 400member electoral college dominated by business leaders and pro-China political figures threatens to bind him to Beiling. Ms Emily Lau, the independent legis-

distinctive grey crew

cut. Mr Tung Cheehwa, the shipping

dismisses

tycoon.

Hong Kong's doubters. "No one ever won by betting against Hong

Kong," he says. "We have faced

many crises and been written off

many times. But each time we

This time, the cards are in his

hands. Selected yesterday as

Hong Kong's first post-colonial

governor. Mr Tung will be in

charge of the territory after its

return to Chinese sovereignty

next July. As chief executive - as

the next governor will be known

- he will determine whether

Hong Kong retains its prosperity

and dynamism after Britain relin-

remaining colony.

quishes its most important

It is a daunting challenge. The

shift from capitalist to commu-

nist sovereignty is unprecedented

and is made more difficult by a

legacy of mistrust between

Britain and China. Shipping was

easier, says Mr Tung, even

though he spent much of the

early 1980s wresting his group

But politics is new to the ship

ping tycoon, and there is limited

time to learn. "The first year is

essential," he says. "We must

build a strong executive-led gov-

ernment by winning the confidence of the people of Hong Kong

That will not be easy: Mr Tung

must establish his authority with

Kong question his ability to

and the trust of Beijing."

from the brink of bankruptcy.

have come back stronger."

lator, points to mainland funding of a 1980s rescue plan for Orient Overseas, Mr Tung's familyowned shipping group, as proof of his debts to China.

"He is very conservative politically and will not be able to stand up to China," Ms Lau predicts. That matters, his detractors say, because failure to uphold the territory's freedoms and institutions will undermine public confidence and sap the entrepreneurial spirit which drives its economy.

Mr Tung readily admits his conservative political instincts. An admirer of Mr Lee Kuan Yew, Singapore's paternalistic elder statesman, he says democracy in Hong Kong should proceed one step at a time. Although he supports the ultimate objective of universal suffrage for the territory's legislature, he wants a gradual timetable. "Order and stabil-

ity create prosperity," he says. The shipping chief has also signalled his agreement with Beijing on sensitive issues of sovereignty. Organisations that support independence for Taiwan and Tibet, he says, will not be welcome in post-1997 Hong Kong. In recent weeks he has stressed traditional Chinese values and the importance of citizens' obligations as opposed to rights.

But Mr Tung dismisses claims that he is in book to Beijing, and he pledges to protect Hong Kong's interests and freedoms.

"We have to preserve our lifestyle," he says. "That is the he says, gives weight to Beijing's his business time to join the democratic politicians. responsibility of the chief executive. That means freedom of Beijing while critics in Hong thought, freedom of capital and freedom of the press." The rule of law will be maintained, he promises, as will the battle against corruption, one of the main con-

> He says his emphasis on co-operation with China does not mean surrendering autonomy. "Quiet negotiation does not mean disagreements. The question is how you resolve them, and confrontation is rarely effective."

> Behind such views lies a belief in the identity of interests between Hong Kong and China. As the mainland's largest trading partner and its principal source of capital and expertise, Hong Kong's continued success is vital

Tung Chee-hwa

- 9:1949 Family moved to Hong Kong. Educated in China, Hong Kong and the UK
- 9: 1968 Returned to Hong Kong after Iving in the US for 10 years, where he worked for General Electric and the family shipping business 9-1982 Took charge of Orient Overseas on the death of his fether
- and founder of the group, Mr Tung Chao-yung
 1985 Orient Overseas suspends
- payment of its loans • 1986 Financial restructuring,
- including an investment of US\$120m, partly backed by China
- ♣ 1992 Appointed Hong Kong affairs activises by China
- 1992 Appointed to Hong Kong Executive Council by Mr Chris Patten, governor
- 1983 Appointed to the Eighth Chinese People's Political Consultative Committee
- 1995 Appointed vice-chairman of the Preparatory Committee, the Beging-appointed body overseeing
- 1996 Steps down as chairman of Orient Overseas (November)
- 9. 1996 Wins majority in preliminary ballot for post of chief executive

to China, Mr Tung argues. This, pledge to honour the territory's autonomy.

Along with co-operation, Mr Tung places great store in stability. "This is the absolute priority," he says. Thus he plans to retain top civil servants and calls for continuity in economic policy. He backs Hong Kong's low level of taxation, its tradition of small government and the fixed link between the Hong Kong dollar and the US dollar. Political disweakness. Of course there will be putes ahead of the handover, he argues, have distracted the territory from the rising challenge of rival regional business centres from Singapore to Shanghai.

There is broad support for these views across the local business community. "He understands what makes this place tick," says Mr Henry Tang, chairman of the Federation of Hong Kong Industries. According to his backers, Mr Tung also strikes a chord with the public at large.

"Right now, most people are mainly concerned with stability." says Mr Tsang Yok-sing, leader of the pro-Beijing Democratic Alliance for the Betterment of Hong Kong, He argues that Mr Tung is "a broadly popular" leader, pointing to recent opinion polls which gave him a clear lead over his two rivals.

Despite the polls, Mr Tung's grass-roots support remains questionable. He lagged far behind Mrs Anson Chan, the respected head of the civil service, until she withdrew from the contest last

But perhaps more important in steering the territory through the transition will be his ability to reconcile differences between Hong Kong, London and Beijing and to defuse any crises which erupt during the transition. In this respect, Mr Tung scores highly. "The priority will be to broker agreements," says one western diplomat. "That requires skill and it requires connections. Mr Tung has both, on both sides

inner cabinet of Mr Chris Patten, the present and last British governor, the shipping chief is a familiar and respected figure among officials of the present administration. A member of the territory's powerful Shanghai-

nese business community, he is

also well connected with the ter-

ritory's influential tycoons. In Beijing, Mr Tung's standing was signalled by a handshake with President Jiang Zemin earlier this year. His education in the UK and his business ties in the US have helped win supporters on both sides of the Atlantic. "He is a man of great integrity." says Mr Winston Lord, US assistant secretary of state and a fam-

Tung's calm in a crisis and his ability to says Mr Harry Wilkinson, chief freedom of expression financial officer of Orient Overseas and head of the banking for him to establish lines of comsyndicate exposed to the compa- munication with Beijing to ny's borrowings during its battle with bankruptcy. "His efforts were a big factor in getting

That experience should help in other cards the tycoon has to play. Perhaps most important is jing power game. the backing of Mrs Chan, who seems set to remain in her post. Public confidence also appears steady. The stock market has surged to record highs in recent weeks, while property prices are rebounding after the fall of 1994-95.

mettle, will soon be tested. The most immediate challenge will come with the formation of a pro- action." visional legislature to replace the existing elected Legislative Corncil.

Beijing's plan for the new body, which is due to be formed this month, has drawn strong opposi-

Coaxed into sparing some of rallying cry for the territory's

The prospect of rival legislatures raises the spectre of confusion and division at the most sensitive time of the transition and is sure to create friction between Mr Tung and the outgoing administration. Mr Patten yesterday pledged to co-operate with the chief executive designate, but this will not extend to the provisional legislature.

"It is a very difficult issue." says Mr Tung, who rues the failure of Britain and China to agree on a legislative "through train". He supports the provisional body. he says, because Hong Kong can ill afford a legislative vacuum during the transition. But he admits he sees no solution to the Sino-British stand-off.

Other problems are stacking up. China plans to amend the territory's Bill of Rights, while Beijing and London are at odds over forge consensus. "He proposed legislation on subver-never lost his cool," sion, which will set the limits for sion, which will set the limits for

Similarly pressing is the need ensure he is not overshadowed by China's representatives in the territory. Senior officials from the military, the government and Communist party will be in Hong the challenges ahead. So will Kong after July. All are more experienced in playing the Bei-

Less predictable, but no less important, will be attempts to interfere in Hong Kong business by provincial and middle-ranking mainland officials. "The real threat does not lie in Beijing." says one adviser to the mainland government. "It lies in the day to Confidence, and Mr Tung's day battles with the officials and businessmen who will be wanting a piece of Hong Kong's

The future chief executive's reputation among his peers provides some reassurance, as does the steady hand he displayed in the shipping crisis of the 1980s. But both will be severely tested tion from Britain and provided a in his next mission.

Facing the past

The draft declaration published accelerated the integration of a by the German and Czech governments this week is intended to draw a line under their trau- founder member of the Euromatic past. Its focus is on the pean common market. In this Sudetenland, the formerly German-settled borderlands of Czechoslovakia which were invaded by Hitler as the first act in his occupation of the entire country. Until now, all attempts at reconciliation over the disputed territory had failed to produce agreement on the treatment of embittered former inhabitants who were expelled after Cormany's defeat.

The agreement, which took two difficult years to draw up, is a compromise which fully satisfies neither side. The problem is that many Czechs feel little desire to apologise to the successors of a state whose army crushed their new-found independence in 1938. On the other side, many politically influential Sudeten Germans, forced to ahandon their homes and farms in 1945, continue to demand compensation and the right to return. Behind Czech doubts lie deeper fears over their ability to

defeated Germany into Nato and encouraged it to become a way former enemies came to terms with their recent past and built a more peaceful and cooperative future. Central Europe had to wait until the end of the cold war before its fragile new democracies could start to confront the bitter lezacy left by both Nazi and Soviet occupation.

The post-war borders drawn at Yalta and Potsdam have remained broadly where they were. Reluctance to re-open a Pandora's box of competing territorial claims is partly prudence. But it is also one of the most positive consequences of central Europe's desire for full integration into both Nato and the European Union. The western institutions are right to insist that aspirant members persevere with painful reforms and resolve often deep-rooted animosities with their neigh-

bours to qualify for entry. The German-Czech agreement preserve the identity and inde- is part of that process. Whatpendence of a small Slav coun- ever the lingering opposition, try on the borders of German- both parliaments should ratify the agreement. It is not perfect, But the deal should be seen in but it is a milestone on the path a broader context. The cold war to reconciliation.

Trapped in round the problem by offering a job to a Brit who also holds **Brussels**

■ These are testing times for tough-talking EU environment

commissioner Ritt Bjerregaard, best remembered for her threat last year to publish a "meet and tell" diary revealing sordid truths about political life in Brussels. The former Danish politician has the delicate task of explaining to the powerful grean lobby why the Commission's efforts to ban inhumane animal trapping are in such a mess.

Earlier this week environment ministers threw out a carefully crafted deal struck between Commission negotiators and the Canadians and Russians, two of the biggest trapping nations. Kind-hearted ministers decided the EU had made too many concessions and ordered Bierregaard to withdraw the offer. The furry friends lobby now wants to know why Bjerregaard - who likes to wear her green credentials on her sleeve – gave so much ground in the first place.

Problems are brewing on another front too. Bjerregaard has fired three members of her cabinet, including the sole non-Dane in her entourage, thereby floating the Brussels convention that commissioners employ at least one "foreigner". Word has it that she plans to get Danish nationality and speaks with a strong Danish accent. Ah. the art of compromise.

Cheap talk

■ Even the persuasive powers of Yves-Thibault de Silguy, the EU's crusading monetary commissioner, are not enough to convince his countrymen that a single currency is a good idea. At the start of a French radio

debate this week between De Silguy and Jean-Pierre Chevenement, the anti-Emu former defence minister, listeners were invited to indicate whether or not they supported monetary union. The result: a resounding 87 per cent non. After an hour of debate, a further telephone poll found De Silguy had reduced the antis to 79 per cent. Give De Silguy another nine hours and perhaps he could have persuaded the rest. Then again, after a few more hours of talk about Emu. perhaps listeners would say out to anything.

Family fortunes

 Celebrations all round yesterday for Hong Kong's Tung family. Not only was Tung Chee-hwa named as the first post-colonial leader of Hong

Kong, but shares in Orient Overseas - the shipping group chaired by Tung until October. when he passed the reins over to brother Chee-chen - leapt nearly 7 per cent on the day. This curious increase, against

BSERVER

the run of a falling Hang Seng Index, swelled the beneficial interests of the two Tung brothers and their brother-in-law Roger King by nearly HK\$19m each. The family trust which controls 200m shares saw its value increase HK\$77m, making a total paper profit for the family of HK\$134m. The gain is all the more perplexing given CH Tung's endeavours to extricate himself from business in order to concentrate on his political ambitions. Could there be cynical investors out there who don't really believe in the separation of powers?

Thin air

■ Yesterday's strike by public sector unions did not dampen spirits at Madrid's Barajas airport, where services actually seemed to improve. Stoical travellers have endured delays at Barajas for weeks - the official excuse is air traffic congestion - with chaos on Tuesday night when a construction crew drilled into a 15.000-volt cable. The resulting short circuit caused a four-hour suspension of services.

Those lucky enough to get through yesterday to the airport's inquiry lines were told that services were almost back to normal despite the strike. The only hiccup was another brief blackout which led to passengers on one transatiantic flight checking in by candlelight. -Delays on domestic flights

averaged a mere half-hour. Ordering an investigation into Tuesday's breakdown. development minister Rafael Arias-Salgado described Barajas's emergency services as "a joke". Locals point out that the airport is named after a nearby village which can be loosely translated as "you mix do".

Over the hump

■ The Arab world has a new superhero in the shape of Camel Zarif, a cartoon character described by his creator as music loving, with overgrown nostrils and twinkling eyes. The one-humped ruminant was chosen from more than 250 entries in a competition organised by the Arab Council for Youth and Development "The camel symbolises patience. intelligence, kindness, goodness and resistance," says his creator Ahdel Salam, a graduate of the cartoons department at Cairo University. Move over Ninja

Financial Times

100 years ago An Impertinent Demand The compositors of Monte

Video have been indulging in a strike, and so far as we can gather they commenced operations in a very characteristic way. They circularised the employers informing them that the association has sanctioned a general increase in salaries varying from 12 to 30 per cent Strangely enough, this "sanction" was not recognised by the masters, who arrived at the conclusion that to yield to this impertment demand would be a fatal submission of authority and would place their establishments at the entire mercy of the operatives. As a result of this dispute the "Monte Video Times" and other papers were compelled to suspend publication.

50 years ago

Silver Floods U.S. Market The U.S. silver market is being called on to take large blocks of foreign metal at a rate greater than it can absorb. Foreign silver is being offered here even though the metal commands higher prices in other markets. apparently because the sellers want the dollars. Offers of silver are coming from Spain, India, China the Near East and London. Russian silver. too, is on the market in the

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Shell may spend \$10bn USAir in Gulf of Mexico

By Robert Corzine

Shell Oil, the US arm of the Anglo-Dutch petroleum group, has lined up nine deep-water oil and gas projects in the Gulf of Mercico and is prepared to spend up to \$10bn developing

sent one of the Shell group's larger development pro-

The US subsidiary's recent success in finding and producing large quantities of oil and gas in water depths approaching 5,000 feet has greatly reduced the risks attached to such initiatives, according to Shell Oil executives.

The company wants to begin work on the nine projects before 2001. Three involve the construction of big surface platforms similar to those at the Auger and Mars fields and the Ursa field, which is under

There will be lots and lots of activity and lots of dollars spent here," said Mr Jere Brew, head of planning and

the two companies,including a

US civil suit by GM under the

Racketeer Influenced and Corrupt Organisations Act (Rico),

a law to fight organised crime.

The FBI is also investigating

In an apparent effort to

counteract speculation about

the future of Mr Ferdinand

Piëch, VW's chairman, in the

wake of the Lopez affair, the

company's supervisory board

said yesterday it would renew

his contract for a further six

years. The contract was due to

under the German law against

unfair competition, relating to

"betrayal of company secrets".

many's economics minister.

intends to raise the dispute

Iraq. Mr Miller's calculations

show 800,000 b/d of excess

as \$18.50 a barrel. "The whole

infrastructure is beginning to

However, at the other end of

the scale, Mr Bogin thinks

there will be some erosion of

prices, but forecasts that Brent

will be at \$21.75 a barrel in the

weaken," he said.

Iraqi crude

Continued from Page 1

with US officials.

Mr Günter Rexrodt, Ger-

be renewed next March. Mr López will be indicted

López

Continued from Page 1

aspects of the case.

finance at Shell's deep-water division in New Orleans. Output from Shell's current and medium-term deep-water developments would soar in the next five years and would rival Shell Off's current output from all its onshore and shallow-water fields.

"In effect we will create a whole new business that will be the same size as Shell Oil's present exploration and pro-duction business," he added.

The deep-water fields now in production represent a small proportion of Shell Oil's total output of less than 300,000 barrels of oil equivalent a day, a figure that includes natural gas. But the company predicts new deep-water production will lift that figure above

500,000 barrels a day by 2001. Shell executives say the company's rapid build-up of large platforms in deep waters more than 100 miles offshore could also make it a leading provider of lucrative deepwater infrastructure services

By Terry Hall in Wellington

New Zealand's conservative

National party was forced to

abandon its controversial mar-

ket-driven health reforms to

secure its coalition deal with

the nationalist New Zealand

Details of the coalition

agreement, revealed by Mr Jim

Bolger, prime minister, show

that both parties gave away

cherished policies in two

months of tough and complex

negotiations after New Zea-

land's first elections under pro-

While the basic thrust of

New Zealand's economic poli-

agreement points to an end to

experimentation in areas such

Mr Bolger said the various

organisations set up to manage

public hospitals with the aim

of making a profit were to be

continued to run up large

losses and waiting lists for sur-

gery grew. The main require-

ment of the policy is that the

new organisations operate "in

Mr Winston Peters, leader of

New Zealand First, failed to

secure his promised cut in

a businesslike way".

portional representation.

as health.

First, it emerged yesterday.

health reforms

being wholly owned by Royal Dutch Shell, says the decision on whether to go ahead with the development programme will be made in the US. But it is likely to be supported by the parent group, which has failed in recent years to replace

Shell Oil, whose financial performance slumped in the early 1990s, has been buoyed by the success of its developments at the Auger and Mars fields, both of which have performed well above expectations. The former was originally intended to produce 45,000 b/d, but its highest rates to date have been almost double that, and work is under way to achieve 100,000 b/d.

reserves with new finds.

Mars, in which British Petroleum holds a 28 per cent stake, began producing in July. Output will reach 60,000 b/d by the end of the year. It is expected to rise to the official capacity of 100,000 b/d in the first half of next year, although Mr Bob Markway, Mars asset manager,

immigration. Instead, migra-

tion will initially remain

unchanged, with future levels

to be decided at a population

conference likely to take place

He was also unable to secure

his party's foreign investment policies. This included a prom-

ise to buy back the Forestry

Corporation for NZ\$2.1bn

National agreed to an export

credit guarantee scheme to

help exporters. It also agreed

to free bealthcare for children

up to the age of five; Mr Peters

had wanted it up to the age of

Other policy agreements will

welfare, child health, housing

strained with an extra

NZ\$1.2bn next year, rising to

tainable economic growth, had

dollar lost about one cent to

close at 66.54 on the trade

weighted index, while

short-term interest rates fell

by 0.5 per cent. Equities

approached a two-year high.

FT WEATHER GUIDE

Yesterday, the New Zealand

been widely anticipated.

Spending is to be con-

and education.

NZ\$5bn by 2000.

for other oil companies.

Shell Oil, which retains a strong US identity despite course of next year.

says output could rise substantially above that figure in the course of next year. **New Zealand** forced to drop

> used by competitors on UK-US routes, where BA and American account for more than 60

Mr Lang said BA and American would have to ensure that

He also said BA would have transatlantic routes.

Mr Wolf said the UK proposals would leave BA and American with an advantage competing airlines would be unable to overcome. "USAir alone requires half the total number of alots proposed by UK officials", he said.

department of transportation to be allowed to operate flights between Heathrow and Boston, Charlotte, Philadelphia and

Pittsburgh.
Mr Wolf also rejected the idea advanced by BA that competitors should have to pay for any slots that the UK carrier

carriers are provided with slots at US airports at no cost. British Airways has received slots without charge at slot-controlled Chicago's O'Hare Airport and New York's John F Kennedy airport." The BA-American alliance is conditional on receiving immunity from US antitrust laws.

reinforces attack on **British Airways**

in London

USAir said yesterday that British Airways should be required to dispose of its 24.6 per cent stake in USAir as a condition of gaining US government approval for its alliance with American Airlines. In a letter to Mr Federico

Peña the US transportation secretary, Mr Stephen Wolf, USAir's chairman, said the conditions the UK government laid down last week for its approval of the BA-American alliance were "completely

The letter is the latest in a series of attacks against BA by USAir since the BA-American alliance was proposed in June. USAir has said that it will erminate its own three-year-

old alliance with BA in March. It has launched a legal action in the US against the link between BA and American. Mr Ian Lang, the UK trade and industry secretary, said

last week that BA and American could escape a referral to the British Monopolies and Mergers Commission if they gave up 168 take-off and landing slots at London Heathrow airport.
The slots would have to be

per cent of flights.

other airlines would be able to compete with them on flights between London and Dallas and between London and Bos-

to undertake not to inhibit USAir from competing on

THE LEX COLUMN

Aon a roll

solidation offers substantial oppor

tunities to reduce costs through

combined buying power and cen-

tralised distribution. It gives critical

mass to the development of own

label products. Moreover, Cora has

the appeal of having very little geo-

up, Tesco's Catteau subsidiary looks left out in the cold. Due to its

small size, it was unable to build

the synergies that are necessary to

justify any deal. So Tesco now looks

more likely to be a seller rather

than a buyer of French businesses However, that is probably no bad thing - it is doing far better with its

lower cost investments in Eastern

Sterling's list of victims grows

steadily. Barely a day passes with-

out some anguished howl from UK

plc about the trials of a strong

pound. Profit downgrades are

becoming increasingly common-

place. Of course, there are winners

too, notably the large importers.

But given that about 40 per cent of

UK company profits come from

abroad, the focus on the downside

UK profits

is understandable.

With the big bid candidates tied

graphical over-lap with Carrefour.

FTSE Eurotrack 200:

898.6 (-22.2)

Aon Corporation's merger with Alexander & Alexander Services, creating the world's largest insurance broker, is the big deal many in the industry have been waiting for. The case for consolidation in broking has long been compelling: revenue growth is sluggish at best and competition has driven margins down horribly. Moreover, with extensive overlap between the two businesses, Aon should not find it difficult to generate enough cost savings to justify the 24 per cent cash premium it is paving. The real worry, if past deals in the industry are anything to go by.

is whether this can be pulled off without losing too many good revenue-earners. After all, brokers are people businesses. And Aon certainly has a big challenge on its hands; it must not only integrate properly the Alexander businesses, but all the others it has been aggressively snapping up as well. In the UK, shareholders in Sedg-wick and Willis Corroon are obvious losers. For them, the news is a double whammy. On the one hand, the Aon/A&A deal will produce a stronger competitor in some core markets. On the other, it presumably removes two of the most likely potential predators; why now would either US company bother to buy Sedgwick or Willis? In theory, of course, the deal should step up the pressure on the two big UK brokers to negotiate their own merger. And the news that Willis has now decided to reconsider the option is welcome. But investors cannot

Carrefour/Cora

count on it materialising.

Consolidation among France's food retailers is proceeding at break-neck speed. Just months after Auchan acquired Docks de France, Carrefour has bought one third of France's fifth largest hypermarket operator, Cora. And this could well spark a takeover of Casino by Promodes to maintain the latter's position in the pecking order.

The high price of these deals For all the signs of increasing raises the fear that the process is strain, the worst may still lie ahead. being driven by market share The first problem is anomalies: machismo. And if Carrefour fails to some companies have had their secure management control of Cora, earnings downgraded, with the its investment will look like an share price subsequently underperforming. Other similar stocks have unjustifiably expensive means of reeping Cora out of bounds to its escaped downgrades. In some cases competitors. Yet there is a compelthe market has made the requisite ling commercial rationale to consoladjustment, but there remain a idation. French retailers have been number of outliers. The more seriblocked from building new stores ous issue is that downgrades have

casts when the real impact may be felt more next year. Given sterling's undistinguished history, it is not surprising that analysts have only recently come to accept that current levels may be sustainable. But companies have not helped by saying little about the impact on 1997 earnings. With a host of year-end trading statements due in the coming weeks, this is likely to change. Companies will probably need to massage profit expectations down, in some cases dramatically. Of course, industry trends and dom tic growth rates will ultimately affect profits more than currencies. But it is a fair bet that we have only heard the first chapter of the

UK buy-backs Here is a mystery: in October, the

UK government effectively removed the tax attraction of share buybacks, but left that on most kinds of special dividend intact. Yet companies are apparently pressing on with distributing surplus capital through buy-backs regardless. To take just two examples: Severn Trent plans to hand out £300m through a buy-back, and PowerGen recently spent £200m this way. To understand why this is so

peculiar, imagine a typical company with 50 per cent of its shares held by tax-exempt institutions. If the company distributes, say, £200m in surplus capital through a special dividend, the institutions should also get £25m in tax credits from the government. If on the other hand it takes the buy-back route they get nothing. So in effect, the buy-back means letting £25m of shareholder value disappear down the drain. To be fair, the net figure is probably less extreme in some cases - for instance because of a low proportion of institutional investors or a large number of individual shareholders paving higher rate tax. But this makes buy-backs a bit less wasteful. It does not make them the right option.

So why are companies doing them? There is an obvious explanation: that managements like the juicy increase in earnings per share which buy backs generate but special dividends do not. Yet this effect, which is simply cosmetic, is no excuse for wasting shareholders' money. They should be saving so loud and clear.

Additional Lex comment

GENESIS CHILE FUND production next year, which Financial markets responded he believes will force prices positively to the package yes-The public hospital and terday, welcoming the commit-LIMITED As the weather becomes less gives up. He said: "US carriers should health reforms, designed to ment to restrain spending. of a factor buoying the market in the first quarter and stocks run the system on a commer-The changes to the Reser be provided with Heathrow cial basis, were highly unpopu-Bank Act, which included widrise, Mr Miller expects prices lar. Hospital managers claimed slots at no cost just as foreign ening the inflation target and for Brent crude to fall as low large salaries, but hospitals setting a goal of securing sus-

PRELIMINARY RESULTS

for the year ended 30th September 1996

	1996 US\$	1995 US\$
Total net assets	479,761,961	487,285,417
Net asset value per Participating Share	48.83	49.60
Earnings per Participating Share	0.73	0.69
Dividend per Participating Share	0.60	0.50
Record Date:	8th January 1997	7
Payment Date:	23rd January 1997	,

NEW GROWTH OPENINGS

Infrastructure - financing concessions to build and operate motorways, tunnels, ports and airports.

Mercosur - associate membership of Mercosur since October 1st 1996 should allow Chile to act as a trading hub within the Southern Cone. Enhanced access for Chilean companies to a market of 200m. people and \$1 trillion in GDP.

Rising prosperity - new-consumption patterns are forming and demand for services increases rapidly with higher disposable income.

The Fund continues to see a good flow of substantial investment opportunities from new listings in Santiago by companies with strong market positions in future growth areas.



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Europe today

It will stay dull with patchy fog and drizzie in an area from the British Isles to the Benelux, southern Scandinavia and Russi Night-time temperatures will be a few degrees below freezing. Day temperatures will range from -1C to 6C. The low cloud will not affect the hills and mountains in central Europe so the Alps will be

unsettled with wind and rain in the south-west. Low pressure will bring showers

to Italy and southern France and thunder showers to southern Turkey and Cyprus.

Five-day

The Iberian peninsula and western and central Mediterranean will stay unsettled with wind and showers.

and sunny. North-west Europe will have some wind and rain will develop.

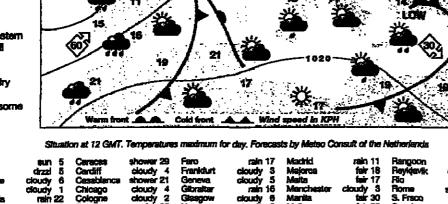
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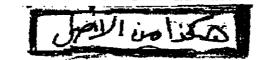
Lufthansa

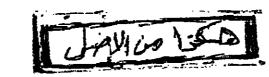
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Cesselsen
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Daker
Dallas
Dethi
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KADICERE

FINANCIAL TIMES

COMPANIES & MARKETS

OTHE FINANCIAL TIMES LIMITED 1996

Thursday December 12 1996

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IN BRIEF

CAMA NE

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River Edition

Banks in \$1.3bn Italian financing

Banks completed Italy's largest private financing for an industrial project; a \$1.3bn loan for the country's biggest integrated gasification and combined cycle power plant. It is the fourth privately financed power station to complete funding agreements with international banks, taking the amount raised in the past 12 months

Threats against Stadshypotek recede The Swedish government appears to be backing away from implied threats to oust the board of Stadshypotek, Sweden's biggest mortgage bank, in reprisal for its acceptance of a merger offer by Skandia, Sweden's leading insurer. Ms Barbara Ericsson, the finance ministry official in charge of the sale, did not "envisage any major happenings" in the near future, in spite of earlier threats by Mr Erik Asbrink, the finance

MTU München and Volvo to co-operate MTU Munchen, a subsidiary of Germany's Daimler-Benz Aerospace, is to collaborate with the aerospace division of Volvo, the Swedish car and truckmaker, in developing and producing aero-engine components. The two companies signed a co-operation agreement worth SKr4bn (\$589m) over a minimum 20 years.

Airtours profits show 46% rise Airtours, the rapidly expanding package holiday company, signalled that the UK holiday market had bounced back after last year's depressed conditions by delivering a 46 per cent rise in pre-tax profits and an upbeat view of prospects for next year. Page 20

Dutch solve 'missing' copper puzzle The Netherlands' Statistical Office (CBS) admitted that its data on the flow of copper to and from Rotterdam were flawed. Mr Jan Daamen, the CBS official responsible for re-examining the statistics, said he was satisfied this solved the puzzle about "missing" stocks of the metal that had become one of the big talking points in the industry. Page 26

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France's largest grocery retailer moves to forge link with Cora supermarket chain Carrefour buys 33.3% stake in rival

Consumer Industries Editor

Carrefour, France's largest grocery retailer, yesterday paid an estimated FFr4bn-FFr5bn (\$770m-\$960m) for a 83.34 per cent stake in GMB, a family holding company that controls rival supermarket group Cora, in an attempt to force the pace of consolidation in the sector.

Carrefour, which described the stake as a blocking minority, said it was in touch with the chief executive

the family that owns GMB, was quoted as saying Cora "will remain

Carrefour said some members of the Bouriez family had sold it their GMB shares. "Part of the family thought the future of Cora would be better with Carrefour. We could suggest some synergies," Carrefour

With 55 hypermarkets and 140 Match supermarkets, Cora ranks fifth among hypermarket chains and ninth of Cora but no agreement had been among retailers. Its territory is reached. Mr Philippe Bouriez, the north-east France extending into Bel-

chairman of Cora and a member of gium, areas where Carrefour has vir- retailers, and beset by intense price tually no stores. Cora, which has total sales of about FFr35bn a year, started building supermarkets in 1969 as a franchisee of Carrefour before

switching to its own name in 1975.
"The presidents of our two companies are in contact," Carrefour said, but added that no agreement had been reached. "The ink is still wet . . . let's give it time."

Carrefour's move is the latest in a flurry of deals among French supermarket chains. Restrained by government regulation from building many new stores, in order to protect small

growth and cost cutting through 15 per cent share of the market.

In October, Promodes and Casino said they might consider an alliance and last summer Auchan, best known for its Mammouth hypermarket chain, paid some FFr20bn for Docks de France.

Carrefour gave no financial details Auchan bid as a benchmark the deal could be worth about FFr4bn-FFr5bn. analysts estimated.

competition, the chains are seeking the UK supermarket chain, in a difficult position. The Catteau chain that mergers. No chain has more than a it acquired in northern France in 1992 needs a partner, analysts believe, and Tesco considered a link with Docks de France before Auchan pre-empted

> Cora was also seen as a likely part-ner for Tesco given its size, geographic fit with Catteau, their work together in the Locede supermarket buying group, and the personal links



Oriental Land shares soar on debut

Shares in Oriental Land, the operator of Tokyo Disneyland, rose nearly 9.5 per cent against a falling market on their first day's trading on the

The listing followed a tworcury (IPO) of 23m shares by the tario Hydro company's two main sharenge holders, Mitsui Fudosan, the entel Bank property developer, and Keisei ental Land Electric Railway, the private urmacia & Upjohn rail and bus operator. Oriental Land is estimated

Z-CRA to have netted Y135.8bn (\$1.2bm) in the largest IPO by a private Japanese company. yai Bank of Canada Half the shares were offered at TISLING auction in November and the rest were offered at Y8,050 na Darby

20

19

18

Operator of Tokyo Disneyland rises 9.5% after public offering

stage initial public offering directly on the first section of and listing exceeded many the exchange where criteria predictions, the company must are more stringent. It was the first private-

on the first section since Mitsubishi Motors in 1988. Other of the new facility, interest have been limited to privatisations of public companies such from the investment burden as NTT.

Mr Toshio Kagami, Oriental's president, said the pro- will slip an average 1 per cent ceeds would partially finance to 1.5 per cent a year. Yet 1995. each this month. The shares a project to build another after the new complex Disney-related theme park, becomes fully operational,

average 15 per cent. Since Tokyo Disneyland opened in 1983, the first Disney theme park to open out-Investor interest in the list- Disney Sea, and a hotel and ing was heightened by the cinema complex adjacent to side the US, it has been pack-

allow Oriental Land to list 2001. While the public offering robust profits. Oriental Land, which has a market capitalisation of more than Y800bn, still raise nearly Y200bn. reported a recurring profit in Mr Kagami warned that the the year to March 31 of sector company to list directly company's earnings would Y28,076bn, up 29.6 per cent. worsen because of the opening direct first-section listings payments and depreciation far this year by the TSE. costs. Cashflow will suffer which is believed to be considand analysts estimate the

Its debut was one of at least 35 new listings approved so

yearly earnings per share

could grow by as much as an

ering about 20 more applications for approval by the end of the year, compared with 82 new listings for the whole of

Argentaria to restructure balance sheet

Argentaria, the partly state-controlled Spanish banking group, plans to use almost half its expected pre-tax earnings to restructure its balance sheet, in what Mr Francisco González, chairman, yesterday called a "drastic change" in accounting practices.
At the same time, Mr Gonz-

alez, appointed by the centreright government in May to complete the privatisation of the group, announced that Mr Francisco Gómez Roldán, head of retail banking, was being promoted to the new post of chief executive, assuming functions previously performed by the chairman.

Mr Gómez Roldán, regarded as a high-flier in financial cir-cles, joined Argentaria five years ago from Banco Bilbao Vizcaya, where he had headed the broking offshoot.

be managing director, is being moved to become non-executive vice-chairman, retaining a new control committee charged with overseeing internal audits.

(\$323m) of its 1996 profit to reducing its costs from long-term fixed rate borrowings. This would be done by cancelling out some debts and

an "implicit reserve", would come out of expected pre-tax earnings of about Pta85bn, similar to last year's.

He also announced an increase in the group's proposed dividend for 1996 to Pta277 a share from Pta270. The plan had already been approved by the Bank of Spain and the group's external auditors, Arthur Andersen, Argentaria said.

Earlier, Argentaria shares closed 1.7 per cent down at Pta5,200 in a generally lower Madrid market.

The restructuring would enable the business to "turn non-recurring profit into recurring profit," Mr González told a press conference after yesterday's board meeting. The bank said the move would lead to improved earnings in 1997.

Argentaria has already predicted a reduction in earnings this year after a 13 per cent Mr Ramon Bustamante, fall in attributable net profit whom Mr González hired ear- for the first nine months to

Mr González said the group was focusing on the medium rather than the short term. his responsibilities as head of The top management of the group was now fully in place, although he said he was still looking for people with new Mr González said Argentaria ideas in specific business would set aside Pta42bn areas. The new chief executive would have the task of facing up to the challenges posed by

nology changes. The government is set to sell refinancing other borrowings its remaining 25 per cent holdat market rates. The special ing in Argentaria, but a ques-World stocks, Page 36 charge, which he described as tion hangs over the timing.

lower interest rates and tech-

Aon's deal creates world's largest insurance broker

and Christopher Adams in

Aon Corporation of Chicago is to buy Alexander & Alexander Services of New York, creating the world's largest insurance broker, the companies announced yesterday. The deal is valued at about \$1.23bn.

The move reopened speculation that consolidation would also hit the remaining "Big Six" brokers with annual revenues of \$1bn or more. The transaction was well

received on Wall Street, with Aon's shares unchanged at \$57%, despite sharp falls elsewhere in the market, while Alexander & Alexander gained \$3% to \$17%. Aon will pay \$17.50 in cash for each Alexanshare in a tender offer expec-yesterday at \$14%, barely half

also pay American Interna- year. tional Group, the large US insurer, \$317.5m in cash for its Alexander's chief executive,

der's preference shares. The deal fits the strategy past two years. It created an acquisitions war chest by selling two life assurance subsidlaries to GE Capital last year for \$1.36bn. Two months ago it bought Bain Hogg, the UK day, but the merger, between insurance brokerage, from Inchcape for \$252.9m.

Alexander & Alexander had been hurt by declining margins, and disappointed US anaper share against a consensus estimate of 25 cents. Its falling share price had also created idation as persuasive. der & Alexander common takeover speculation, opening

company's earnings per share

Mr Frank Zarb, Alexander & stake in Alexander & Alexan- said the need for consolidation across the industry was "increasingly evident". Insuradopted by Aon during the ance rates have tumbled and there is a trend among small commercial buyers towards taking on more risks.

AON was not prepared to estimate cost savings yesterthe world's second and fourthlargest brokerages by revenue, creates opportunities for rationalisation in the US and London. It will also lead to a lysts with its third-quarter strategy review at its British profits, which were 14 cents rival Willis Corroon, which has previously said it did not view the arguments for consol-

Hanson rules out Eastern sale

By Simon Holberton and Ross Tieman in London

Hanson, the conglomerate in the throes of a five-way demertrade sale of Eastern Group, the UK arm of its soon-to-be-

floated Energy Group. Some brokers have argued that Eastern has little in common with Peabody, Hanson's US coal business, with which it is being lumped for the flota-

chairman of the Energy Group, said there was not "a snowball's chance in hell" of Eastern being sold separately before the February demerger. Three businesses - US combination of skills that, in a "A trade sale would not do Industries, Imperial Tobacco highly competitive world,

114.0 - 12.0

son released financial information about the Energy Group which showed it had assets of £6.8bn (\$11.2bn) and profits ger, yesterday ruled out a before tax of £446m in the year to the end of September.

Listing details for the Energy Group are expected to be published early in the new year. Trading in shares of the the first week of February. The demerger of Energy will

But Mr Derek Bonham, mark the final phase in the voluntary break-up of the acquisitive conglomerate assembled over 30 years by Lords Hanson and White. Three businesses - US

He was speaking after Han- an effort to enhance shareholder value. The on-going Hanson business, valued by analysts at

£2.1bn, will be a building materials company, seeking growth organically as well as through acquisitions. Shares in Hanson slipped 34p yesterday to 80p. Mr Bonham admitted that there was not an "awful lot group, valued by analysis at of logic" to putting Peabody 53.5hn is expected to begin in and Eastern Group together except both were owned by

Hanson. However he defended the combination of the businesses claiming they could benefit

from working together. "We have brought together a combination of skills that, in a anything for Hanson share- and Millennium Chemicals - guarantees you get to the top holders," Mr Bonham said. have already been demerged in table," he said.



EUROPEAN NEWS DIGEST:

Bank Austria

Bank Austria, the country's biggest bank, confirmed

Creditanstalt, its main rival. The decision makes more

likely the creation of a powerful European regional bank

from the Austrian government's efforts to privatise the

Bank Austria said a firm offer would be made before

premium to Creditanstalt's current share price of .

Until Bank Austria revealed its hand, the only offer for

CA appeared to be a partial bid from a consortium led by First Austrian, the country's oldest savings bank, and

A merger of the two banks would create an Austrian. bank ranking about 30th in size in Europe and with a 25

per cent share of the local banking market. It seems likely that Bank Austria would need extra financial support

from WestLB, the German bank, and Cariplo, Italy's.

GE Capital agrees loan buy

state-owned French bank's non-bank assets.

General Electric Capital yesterday agreed to buy a parcel

of 127 non-performing property loans with a book value of FFr1bn (\$193m) from Crédit Lyonnais via the Consortium de Réalisation (CDR), which was set up to sell the

The deal, arranged by Bankers' Trust, is the first bulk

disclosed, but CDR Créances said recently it hoped to get

property arm of CDR, is charged with selling off a total of around FFr18bn worth of Crédit Lyonnais property loans.

Some 70 per cent of the loans bought by GE Capital are in

David Buchan, Paris

Gordon Cramb. Amsterdan

about 30 per cent of the book price. CDR Créances, the

New Dutch exchange upbeat

Amsterdam Exchanges (AEX), the product of a merger

markets, expects Fl 10m (\$5.81m) profit in its first year on

a share capital of Fl 100m, the two entities told their first

combined press conference yesterday. The new company,

associations it replaces, intends as early as next month to

These preference shares are to become freely tradeable

issue a prospectus aimed at placing half its equity with

after five years, at which point AEX would obtain a

executive designate, said the unification of the markets

and the move to corporate status would reduce risk and

give AEX a better competitive position after European

Lebanese bank raises capital

(\$399m) at the end of 1995, yesterday completed a \$60m

capital increase, consisting of \$40m of global depositary receipts and \$20m of shares to be listed on the Beirut

domestic and overseas offering, as well as the first initial

re-opened earlier this year after a 13-year closure because

Lebanese issue, which allowed the securities to be priced

at \$11.8, near the top of the announced range of \$10-\$12.

The domestic shares were 5.1 per cent cheaper at \$11.2. The GDRs are listed in Luxembourg. Forty per cent were placed in the US, under rule 144a of the US

Securities and Exchange Commission, which restricts sales to qualified institutional investors. Another 30 per cent went into the UK, and the remaining 30 per cent

foreign entities under the umbrella of the Lebanese mother company. BLC will be the first Lebanese bank to

list its shares on the stock exchange. Banque Audi and Byblos Bank, two of the country's six largest banks, are

were evenly spread between Asia and continental Europe. The new funds will partly be used to regroup BLC's

stock exchange. The deal was the first simultaneous

public offering of shares since the local exchange

of the Lebanese civil war.

expected to follow suit.

Banque Libanaise pour le Commerce, Lebanon's

thirteenth-largest bank with total assets of L£620bn

listing on its own board. Mr George Möller, chief

from January 1 between the Dutch stock and options

owned equally by the memberships of the two

financial institutions and listed companies.

monetary union takes effect in two years.

property loan disposal by CDR. The price was not

the Paris region, divided equally between loans to

residences, offices and retail businesses.

Sch719.5. The government's controlling stake in

EA-Generali, an Italian-Austrian insurer.

largest savings bank, to mount its bid.

Creditanstalt is currently worth Schl4.3bn (\$1.3bn).

the December 16 deadline. It is thought the offer will be at

yesterday it would bid for control of state-owned

confirms bid

country's most famous bank.

Reprisal threat to Stadshypotek recedes

The Swedish government appeared last night to be backing away from Stadshypotek in reprisal for the merger offer by Skandia, Sweden's

Mr Erik Asbrink has accused the proposed tie-up of interfering with finance ministry official in charge cent in Stadshypotek. He expressed no confidence in the board and did not rule out calling an extraordinary general meeting of shareholders to unseat the directors.

holders who normally

attend the annual

general meeting of RWE, the

German industrial conglom-

erate, will file into an Essen

conference centre this morn-

ing expecting a long day. Green shareholders have

tabled about 20 motions for-

bidding the company from

transporting electricity from

nuclear power plants across its grid. Others have

demanded that all electricity

cables be removed from the

vicinity of kindergartens

because of fears over the

possible effect on children.

A subject likely to be

noticeable for its absence.

however, and one which

may give Mr Dietmar Kuhnt,

RWE chief executive, a far

bigger headache than noisy

environmentalist share-

holders, is the 70 or so

municipalities which own

29.3 per cent of the Essen-

based group but control 58.9

per cent of it through their

The presence of the munic-

ipalities, which have held

stakes in RWE since it was

founded in 1909, means the

group is perceived less as

one of Germany's biggest

public companies, than as a

The problem is not only

with the voting structure.

Critics claim RWE manage-

ment and supervisory boards

are stuffed with the former

directors of municipalities

who lack the required pri-

Aerial Communications

T&TA

Avantel

CANTY

Energis

Bell Atlantic

British Telecom

Cable & Wireless

Cincinnati Bell

COFETE/SCT

Esprit Telecom

Grupo Iusacell

ICG Communications

International Cable Tel

MCI Communications

MFS Communications

McLend

CommNet Cellular

Brooks Fiber Properties

AirTouch Communications

BCE Mobile Communications

BellSouth Telecommunications

European Commission-DGXIII

Globalstar Telecommunications

Federal Communications Commission

Hughes Telecommunications & Space

International Finance Corporation

Companía de Telecomunicaciones de Chile

public-sector dinosaur.

multiple voting rights.

The state's holding, carrying a market value of SKr7.5bn (\$1.1bn), has until now been controlled by a state foundation, Stadshypotekimplied threats to oust the board of skassan. The government today assumes full rights over the stake, mortgage bank's acceptance of a handing Mr Asbrink his first opportunity to launch a no-confidence motion.

But Ms Barbara Bricsson, the any major happenings tomorrow. I just think the shares will be transwork will continue to get the high-

RWE plots a victory

at municipal politics

Public-sector masters must go in the interests

of shareholder value, says Michael Lindemann

palities' influence means

that RWE is often seen as

trailing Veba and Viag, the

other two German conglom-

erates built around regional

electricity monopolies. In

fact it has a 1996 p/e ratio of

22.6 compared with 19.9 for Veba and 14.6 for Vlag.

to cede control - something

which would also help RWE

in its longer-term efforts to secure a full US listing – has

been tried before. Bungling

it was one of the reasons

that Mr Friedhelm Gieske,

Mr Kuhnt's predecessor, left

his job early two years ago.

However, the German gov-

ernment has turned its

attention to the problem of

multiple voting rights, urged

on by the Free Democratic

party, the junior partner in

Chancellor Helmut Kohl's

coalition government which

wants more transparency in

Draft legislation indicates

that multiple voting rights ~

which also affect groups

such as Siemens and VEW,

another utility - would be

outlawed. But that raises the

RWR and the Association of

the Municipal RWE Share-

holders (VKA) have yet to

Mr Walter Mende, who

heads the VKA and sits on

RWE's non-executive super-

visory board, has already

warned that the association

tutional court if the legisla-

We would like to thank

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and the following participants

for making Salomon Brothers'

Fifth Annual Global Telecommunications Conference

an overwhelming success.

lining up for a tussle.

Official talks between

question of compensation.

comorate governance.

Getting the municipalities

cacy of a no confidence motion. which would have clouded the auction process and was opposed by Sweden's small shareholders association, Aktiespararna

Observers in Stockholm believe prospects are receding for a rival bid which would offer a substantial premium to Skandia's. The Skandia offer values Stadshypotek at the state's attempt to sell its 34 per of the sale, said: "I don't envisage SKr20.6bn, against its SKr22.7bn market value.

> The government has previously ferred [to the government] and stipulated that the successful applicant would be expected to bid for

"only a strong preference, not a sale process, who asked not to be It has emerged that three Swed-

ish banks - Svenska Handelsbanken, Föreningsbanken and Swedbank - had planned a joint bid for the state's 34 per cent holding in Stadshypotek. However, the consortium broke down shortly before the government's deadline last Monday for initial bids.

Nordhanken has expressed reservations over the price tag for Stadshypotek.

The government has insisted it all Stadshypotek's shares but Ms has no rush to conclude bid negoti-

Doubts had grown over the effi- Ericsson said yesterday this was ations but one banker close to the named, said: "Anybody who was serious about buying Stadshypotek within a reasonable time frame would have started negotiating with the [Stadshypotek] board and would have started due diligence by now.

Stadshypotek said it had received no contact from any eventual bidder and reiterated it was open to other offers apart from

Stadshypotek shares fell SKr1.50 to SKr182, while Skandia's stock was steady at SKr186.

Fund set **SE Europe** ventures

banking group has launched a \$30m closed end fund to provide equity financing for joint ventures and priva-tised companies in Romania and other south-east European countries making the switch to a market economy.

The Dannbe Fund is being managed from Athens in order to take advantage of a keen appetite among Greek companies for expansion into neighbouring markets. The first three deals approved by the fund involve a total investment of \$4.5m in joint ventures in Romania by three Greek companies: a paint producer, a plastics manufacturer and a construction company building an office complex in Bucharest.

Danube Fund managing director, said two-thirds of the fund's capital would be invested in Romania and that smaller investments would be made in Bulgaria, Albania, Moldova and Macedonia.

already been committed by Greek and international investors, with the remaining funds due to be raised by June 1997.

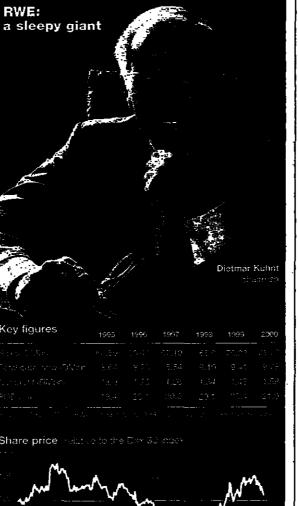
The European Bank for



Mr Damianos Damianos

He said \$15.6m had

Reconstruction and Development will take a 20 per cent stake in the fund, making an initial commitment of \$3m. The International Finance Corporation, the



municipalities can join in Veba has the upper hand, too - something RWE will

The Veba/C&W deal has helped lift RWE's share price

says Ms Isabelle Hayen, an analyst at US investment bank Goldman Sachs. "There is an explicit commitment to shareholder value at

Seeing off the municipali-

Fidelity biggest buyer of Cerus'

By Tom Burns in Madrid

Fidelity Investments, the big US mutual fund, revealed yesterday it had been the biggest purchaser in last week's \$124m sale of the controlling stake in Cofir owned by Cerus, Mr Mario De Benedetti's French holding com-

The US fund informed lator that it had bought 4.3m total which represents an investment of \$13.3m accord-

Coffr, which was launched

Fidelity was the only one

The disclosure by Fidelity

merchant bank, Cofir has become the most widely held company on the Bolsa with 130 institutions owning 80 per cent of its stock and the remaining equity in the hands of some 2,500 individual investors

Mr Gabriele Burgio, Cofir chief executive said yesterday that six new members would be appointed early next year to the company's 12-member board in order to replace directors linked to Mr De Benedetti who resigned after last week's transaction.

Schroders will advise on

these appointments and Mr Burgio said the new directors would be "Spaniards, high profile and known to the City so as to reflect a majority UK shareholder base". Mr Burgio's continuity was generally welcomed by the markets; "clients always found Burgio impressive and they will like him more now that he is free of De Benedetti's shackles" said an analyst at a big London securities house.

Cofir will now build up its wine and hotel companies and sell other assets. "Our strategy will be modelled on that of Bass (the UK brewing and hotel group) which we have studied closely." Mr Burgio said.

The Cerus stake in Cofir was sold last Thursday at a price of Pta404 per share. Yesterday Cofir's shares were traded at a maximum of Pta445 before easing back Iri to sell M-way toll group Iri, the Italian state holding company, plans to privatise Autostrade, its motorway toll group, by next June and has taken the company directly under its control in preparation. Previously Autostrade was 20.7 per cent owned by Iri and 66.2 per cent controlled by Fintecna,

itself an Iri subsidiary. The move will enable Iri, which has to reduce its debts under an accord between Italy and the European Commission, directly to cash the proceeds of the privatisation of Autostrade, which is valued at an estimated L3,000bn (\$1.97bn). Under a government decree published yesterday, the Treasury is to take over Stet, Iri's telecoms holding which is also to be privatised, by the end of the year.

Pharmacia plans R&D centre

Pharmacia & Upjohn, the Swedish-American drugs group, yesterday announced plans for a new research centre in Stockholm which is estimated to cost approximately

The centre, which comprises two facilities for chemistry and biology will bring Pharmacia & Upjohn's recent investment in Sweden to more than SKr3.4 bn and will. bring together research facilities presently located in

Mannesmann unit bullish

Mannesmann Mobilfunk, the telecommunications subsidiary of Mannesmann, said it expects full-year sales to rise 54 per cent, from DM2.7bn a year earlier to DM4.2bn (\$2.72bn). "Earnings in the period will reflect." sales development," the company added. So far this year Mannesmann Mobilfunk has won a net 850,000 new mobile telephony customers, bringing the total to around 2.3m. Mannesmann expects continued growth in mobile telephony next year.

Mr Jurgen von Kuczkowski, chairman of Mannesmann, said he expects the company to have over 3m subscribers to its mobile phone network by the end of 1997.

Comments and press releases about international

companies coverage can be sent by e-mail to international.companies@fl.com.

INVESCO LUXEMBOURG S.A.

INCOME PLUS FUND

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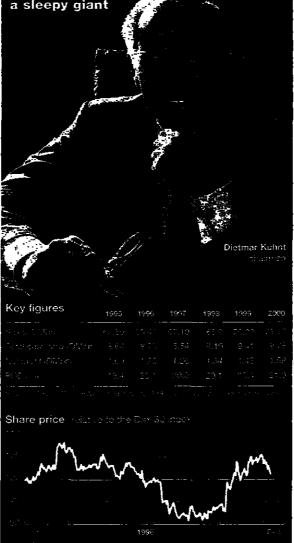
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DOMUS MORTGAGE FINANCE NO.1 pkg Mortgage Backed Floating Rate Notes due 2014

in accordance with the conditions of the Notes, notice is hereby given, that for the three morals period December 10, 1996 to March 10, 1997 the Notes will carry a rate of interest of 6.725 per cent. per armum with a coupon amount of £1,559.25.

By: The Chase Manhattan Bank London, Agent Bank December 12, 1996

O CHASE



turf, the group has to ensure the municipalities remain friendly in order to keep The same goes for telecoms, where RWE is still since it was announced in negotiating an alliance with early October but analysts

Veba and Cable and Wire- say more needs to be done. vate sector management will go to Germany's consti- less, the UK-based group.

Mobile Telephone Networks

Omnipoint Communications

Nextel Communications

Omnitel Pronto Italia

Orion Network Systems

Pacific Gateway Exchange

PrimeCo Personal Communications

NEXTLINK

ORBCOMM

Pacific Bell

Sprint

Paging Network

Palmer Wireless

Sprint Spectrum

Telecom Argentina

Teléfonos de México

360° Communications

United States Cellular

Vanguard Cellular Systems

Western Wireless Corporation

Telco Group

Teleport

Tel-Save

Viatel

December 2-4, 1996

Salomon Brothers

WorldCom

RSL. Communications

SBC Communications

SmarTalk Teleservices

A solution is possible, he

has indicated. But buying

out the VKA's multiple vot-

ing rights could cost DM2hn

(\$1.29bn). RWE has winced

at that price although ana-

lysts say the group's very

large cash flow would enable

How the municipalities themselves will behave is

unclear. "A large number

say 'absolutely no way'

while another element says

they could really do with the

money," says Mr Walter

"One thing that we have

settled with Mr Kuhnt is

that there will be a court case," Mr Kiwit adds. "So if

we reach an agreement it

will have to be able to with-

Doing a deal with the

municipalities is part of Mr

Kuhnt's broader strategy to improve RWE's focus on

shareholder value, a notion

Veba, its arch rival, has

ut he needs to tread

carefully. International competition

looms for the German electricity market, for decades RWE's core business. As oth-

ers intrude on RWE's home

helped pioneer in Germany.

it to engineer a deal.

Kiwit, VKA manager.

stand an appeal."

"RWE has the potential to ties would doubtless help Mr | World Bank's private sector

Germany's newly liberalised deliver the sort of earnings Kuhnt strengthen that com- lending arm, has committed tion is passed as it stands. telecoms regime means we have seen at Veba but mitment at RWE.

Cofir shares

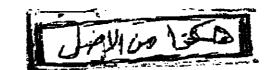
Madrid's stock market reguof Cerus' Cofir shares, a ing to the sale price and accounts for 5.15 per cent of Cotir's total equity.

by Mr De Benedetti in 1987 posted net profits of Ptal.6bn (\$122m) last year.

of 75, mostly UK-based, institutions which took part in the purchase of Cerus 48 per cent stake in Cofir, to inform the regulator that it had bought shares in excess of 5 per cent, the threshold for disclosures of stock acquisi-

represents a significant psychological lift for Cofir at a time when the holding company enters a wide-ranging restructuring in its post De Benedetti era. The reorganisation will include the appointment of a new board and a new strategy to focus exclusively on drinks and

As a result of the Cerus disposal, which was co-ordinated by Schroders, the UK to Pta436.



COMPANIES AND FINANCE: EUROPE

Volvo and Dasa agree aero-engine link-up Loan agreed

By Greg Mctvor in Stockholm

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CLAS NO.

Bank Viviria

of Germany's Daimler-Benz costs in a highly competitive Aerospace (Dasa), is to col- sector. laborate with the aerospace division of Volvo, the Swedish car and truckmaker, in aero-engine components.

The two companies yesterday signed a co-operation agreement worth SKr4bn (\$590m) over a minimum 20 ing components for engines

years. The deal reflects a supplied by Pratt & Whitney, and production work in aero-competitiveness in order bet-MTU Munchen, a subsidiary to pool resources and cut aircraft.

Both companies supply components to General Electric, Pratt & Whitney and developing and producing Rolls-Royce, the world's aero-industry leaders.

developing and manufactur-

growing impetus among the US group, for use in Boe- engines. Joint efforts could ter to meet overall customer chief executive, said the link European aerospace groups ing 777 inter-continental jet

Volvo Aero will concenwhile MTU is to focus on production of rotating parts such as blades, vanes, discs and rings.

The two companies aim to Under the agreement extend the agreement to turing Volvo Agro will join MTU in broad co-operation in new engine programmes, span- important step in enhancing

also include technology demand for low cost and

Mr Arne Wittlöv, Volvo trate on making casings. Aero chief executive, said it oration would boost annual makers. The alliance would was vital for the aero-engine industry to streamline its operations to avoid duplication in technology, design, development and manufac-

"We have now taken an ning development, design European efficiency and high quality," he said.

Volvo Aero said the collabturnover by SKr200m and spur MTU's own drive to would result in improved improve competitiveness, he

It is in effect taking over casings production from ing profits of SKr103m last MTU and will employ an additional 200 workers at its MTU had turnover of plant in Trollhättan, west

with Volvo Aero heralded an intensification of co-operation among European engine

Volvo Aero made operatyear on sales of SKr4bn. DM1.7bn, but no profit figure was available.

Mr Rainer Hertrich, MTU for Italian power station

By Andrew Taylor and

Banks yesterday completed Italy's largest private financing for an industrial project, a \$1.3bn loan for the country's biggest integrated gasification and combined cycle power plant.

It is the fourth privately financed power station to complete funding agreements international banks, taking the amount raised in the past 12 months to about

The 15-year loan is to finance a 551MW power station, known as Sarlux Sr1, at the Sarroch oil refinery on the south-east coast of Sar-

The plant which will sell electricity to Rnel, the state owned electricity company, will be operated under a 20vear concession by a joint venture between Saras, the Italian oil refinery company, and Enron, the large US energy group.

The pricing terms of the loan were not disclosed. Lead arrangers include Chase, NatWest Markets, Banque Paribas and Banca Commerciale Italiana. Syndication of the loan is expected to be completed next spring. The European Investment

(\$489m) of funds but will not take on any project risk. Snamprogetti and Turbotecnica of Italy and General Electric of the US will build the plant.

Banking agreements were signed earlier this month for an \$800m privately financed power station at Falconera on Italy's Adviatic coast. A consortium of seven international banks agreed to provide L1,003bn of the L1,330bn cost of the project.

A joint venture of Anon-

ima Petroli Italiana (API) and Asea Brown Boveri (ABB), the Swiss-Swedish electrical engineering group. will provide the remainder of the finance and operate the power station under a 25-year concession.

Private-sector investors have been attracted by enhanced state-backed tariff agreements in a bid to encourage extra capacity and reduce the country's need to import electricity. An estimated 15-20 per cent of Italy's electricity is

Banks earlier this year agreed a L732bn syndicated loan for a 350MW privately financed power station at Rosignano in Tuscany, in which Tractebel, the private Belgian power producer, is Bank will provide L750bn

Hoechst takes inevitable step Daniel Green on the decision to buy out Roussel-Uclaf minorities cechst's decision, important objectives: the flo-have risen steadily for regards as difficult markets announced yestertation next year of at least 15 almost a year in anticipation in France and Italy, per cent of its most valuable of Hoechst's move. And Mr Daniel Camus,

day, to spend DM5bn (\$3:22bn) on buying out the minority shareholders in France's Roussel-Uclaf is the latest in a series of Hoechst has made HMR one strategic moves by the Ger- of the world's top five drugs man chemical group to enhance shareholder value.

The company, led by its chairman, Mr Jürgen Dormann, has in recent months split itself into six parts; promised to float stakes in some of its divisions; and offloaded its underperforming speciality chemicals busi-

It has also promised to adopt US accounting standards and to gain a New rivals, BASF and Bayer, but York listing - all moves designed to make the group more transparent and increase its value, says Mr Hoechst believes it can keep Dormann. His actions have not been in vain. Hoechst's shares have outperformed the Dax 100 by 44 per cent · Yesterday's acquisition

obstacles to one of his most

asset - Hoechst Marion Roussel, its pharmaceuticals business. In 18 months, in talks with the French govcompanies by sales.

The flotation is in line any offer. with strategies adopted by other chemicals groups. Competitors such as the UK's ICI, Switzerland's Sandoz and Dow Chemical of the US have all in recent years split their chemicals from the pharmaceuticals

Hoechst has been far more radical than its domestic it has not followed most of its international competitors in splitting completely. majority ownership while letting management concentrate on competing in a single industry as well as giving shareholders the benefit of the higher premiums commanded by drugs businesses.

Hoechst has made no secret of the fact that it had been ernment - which owned 4.3 gin of 16 per cent this year. per cent of Roussel - to ensure that it would take up

So while Hoechst's offer yesterday was at only a 6 per cent premium to the Roussel share price, it was at a 12 per cent premium to the price a month ago and 19 per cent to the price three months ago.

evertheless, the transaction price is modest by drugs industry standards, valuing Roussel at 25.5 times 1996 prospective earnings. Many of the world's large drugs companies are trading on price earnings ratios at that level or higher. The relatively low ple is despite Roussel-Uclaf's poor profitability. Roussel suffers from being heavily dependent on Indeed, Roussel shares what the drugs industry

Mr Daniel Camus, Roussel finance director, said yesterday that the company expected an operating profit mar-

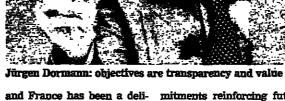
He said the average industry figure was 28 per cent, although 30 per cent or more But the price was also modest because of the virtual impossibility that Roussel could be bought by anyone else. Hoechst and Roussel are linked through

more than five routes -

including joint holdings in

Agrevo, the agricultural

joint venture with Germany's Schering, and veterinary businesses - as well as the direct majority stake. The deal - over which Hoechst was advised by Lazards and Roussel-Uclaf by SBC Warburg - is unlikely to run into the sort of politiwith the sale of Thomson to Lagardère and Daewoo of



ond world war. However, as the politics of western Europe changed in the 1990s and as Hoechst developed its plans to break itself up, its managers decided such restraint was no longer needed.

Moreover, the French government, which yesterday cal difficulties associated confirmed the sale of its 4.3 per cent stake in Roussel-Uclaf, said it had obtained in South Korea. True, the rela- return from the German

mitments reinforcing future cate one since before the sec-French husiness within the HMR group for pharmaceuticals and fine chemicals".

This appeared to ease official concerns that the total absorption of Roussel-Uclaf might result in the sort of rationalisation and job losses that have followed recent mega-mergers in the world pharmaceutical industry.

The path is now cleared for Hoechst to finalise details of the HMR flotation to be presented to sharetionship between Hoechst company "a series of com- holder meetings next spring,

Disney/ABC in deal with Telepiù

By Raymond Snoddy

Disney/ABC International has signed a 10-year deal with Telepiù, Italy's first pay television service - a deal which will enable Telepiù to and Miramax pictures. The offer pay-per-view movies newly developed premium and have its own subscription Disney Channel.

Telepiu, which launched its digital satellite service earlier this year, has signed up 40,000 subscribers so

Disney/ABC will license pay television and pay-perview rights to Telepiù for feature films from the Dis-

ney, Hollywood, Touchstone

Disney channel is expected

to be launched in late 1997. There are already Disney Channels in the UK, Taiwan and Australia and additional channels will be launched in far compared with the 80,000 France in March and if hoped to have at this Middle East in April. France in March and the

Kvaerner continues with £1bn disposal strategy

By Tim Burt

Kvaerner, the Anglo-Norwegian shipbuilding and engineering group, vesterday announced the latest stage of its £1bn (\$1.65bn) disposal strategy by selling its fleet

FIDELITY FUNDS SICAV Société d'Investissement à Capital Variable Kansallis House - Place de l'Etoile

L-1021 Luxembourg

R.C. No B 34036

Fidelity Funds Sicav has declared an interim dividend in respect of shares of Fidelity Funds - Sterling Bond Fund in issue at the close of business on October 31, 1996, of £0.0044 pounds sterling per share. In the case-of registered shares, dividends will be paid or reinvested in additional shares of Sterling Bond Fund, as appropriate, on December 13, 1996. Dividend cheques not cashed within 5 years will lapse and the dividend will revert to Fidelity Punds.

In the case of bearer shares, dividends will be paid to holders of bearer shares in sterling (or by arrangement with the Paying Agent and at the cost of the shareholder, in any other currency) against tender of the relevant coupon (coupon n° 24)

Paying Agent in Luxembourg Bankers Trust Luxembourg S.A.

AEN-AMRO Bank

Paying Agent in Sweden

Svenska Handelbanken

Blasicholmstorg, 12 10670 STOCKHOLM

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Herengracht 595 AMSTERDAM

LUXEMBOURG

Paying Agent in France

75371 PARIS Cedex 08

Paying Agent in Ireland

41-45 St. Stephen's Green DUBLIN 2

Bradwell Limited

Trafalgar House this year - said the deal would lift its 12-month divestment proceeds to £550m. Mr Jan Magne Heggelund, Kvaer-

ner finance director, said: "This is gar's plastics machinery business. of refrigerated bulk carriers for part of Kvaerner's previously The company - which launched and provides the group with a tributed sharply reduced pre-tax the Scandinavian shipping group, to NKr260.5.

be recorded during the last quarter of the year." Further disposal candidates are

loss-making cruise line, and Trafal-In the first nine months of this announced disposal programme year, such non-core businesses con-

increased sales of NKr7.84bn fleet. against NKr5.34bn a year ago. thought to include Cunard, the Kvaerner vesterday said it was

> its £1bn target by spring 1998. The latest deal follows six weeks of talks with Agdesidens Rederi.

the disposals following its £904m profit of about NKr90m which will profits of NKr173m compared with which has established a new acquisition of UK conglomerate be recorded during the last quarter NKr848m last time, in spite of company to operate the eight-ship company to operate the eight-ship

> Equity investment for the acquisition has been provided by venconfident of more than exceeding ture capitalists Daughty Hanson, with additional loan financing from Chase Manhattan Bank. Kværner's B shares fell NKrl.50



Challenge Bank Limited

Floating Rate Notes due 1997

In accordance with the provisions of the Notes, notice is herefry March 12, 1997 the Notes will carry an Interest Rate of 5.88125% per armum. The interest payable on the relevant interest payment date, March 12, 1997 will be U.S. \$14.70 per U.S. \$1,000 Note, U.S. \$147.03 per U.S. \$10,000 Note, U.S. \$1,470.31 per U.S. \$100,000 Note.

By: The Chase Manhattan Bank London, Agent Bank December 12, 1996



Invesco Okassa: Global Strategy Fund

INVESCO OKASAN GLOBAL STRATEGY FUND

L - 1331 Linembows : 27, avenue Monterry L - 2163 Lo. R.C. Luxembourg 23 784

Notice to shareholders ion of the board of directors of the above fund, the registered office has bee esse Charlette, L-1331 Las

> INVESCO TAIWAN GROWTH FUND société d'investissement à capusi variable 11, Boulevard Grande-Duchesse Charlotte L - 1331 Lucembourg

27, sweater Montesey L - 2163 Lt R.C. Lancabourg 38 250

CONTRACTS & TENDERS

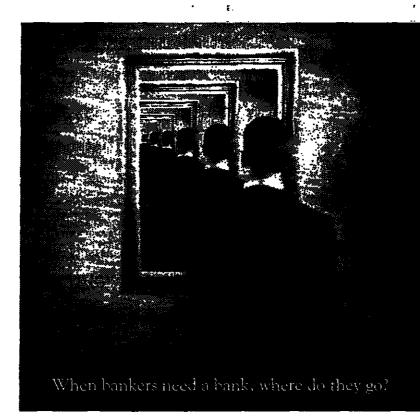
CALL FOR APPLICATION Operator of GSM Mobile Cellular Radio in Iceland

On behalf of the Minister of Communications in Iceland, the State Trading Centre invites applications for a second GSM operator in localand. The licence will be in addition to a GSM licence already granted to Post and Telecom in Iceland.

Information and application torms will be available from the State Trading Centre, beginning 17 December 1996. Address: Borgartun 7, 105 Reykjavík, Iceland.

APPOINTMENTS ADVERTISING

es in the UX edition every Monday, Wednesday & Tamsday and in the



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Innovation knows no boundaries. So when Lazard Brothers Asset Management concluded that they could better serve their clients' complex asset management needs by outsourcing the custody of their worldwide investment portfolios--they looked to us. Eliminating the need for an expensive in-house operation would allow them to focus on their core asset management business--what they do best. After, completing an extensive evaluation, Lazard

Brothers Asset Management chose Bankers Trust as their global custodian. Why! To remain competitive they needed portfolio information in real time, across global markets--so that they had the information they needed, when they needed it. Keeping on top of the market and ahead of the competition. With a system tailored by market, Lazard Brothers Asset Management will benefit from the most technologically sophisticated and extensive global reporting available. Bankers Trust's investment in research and development. technological innovation, superior risk management skills, coupled with our global reach and local market knowledge, allow us to provide our clients with the competitive advantages they need to succeed. Which is as it should be, because for Lazard Brothers Asset Management clients, only the best has ever been good enough. We welcome the opportunity to discuss how we can develop equally innovative solutions to your financial challenges.

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European Investment Bank

TTL 9,000,000,000,000

Series No. 3

111, 200,000,000,000

10,75 per cent. Transformable Fixed Rate Notes due 1998, (de "Notes")

The Paying Agents will pay the context statement amount on Just paying a copyright A ser-print of the company is not decimal recomm

Senters Trust Company

1 Appeld Street Broadgate

Lyndon SCZA 2HE

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Benkers Treet Learnshoury S.A. 14 Boulevard F.D. Roosevelr

Dabt lamance Program

Application forms will be provided upon payment of ISK 20,000. Applicants shall in addition pay a fee of ISK 180,000 for the evaluation of their application. Both payments are non-refundable and only applications from parties who have paid these fees will be evaluated.

Taby Finden-Crotts on +44 0171 873 3488

NOTICE OF MEETING OF NOTEHOLDERS

Challenge Bank Limited

US \$250,000,000 Floating Rate Notes due 9 December 1997

Challenge Bank Limited (the "listuer") hereby gives notice to the holders (the "Noteholders") of Challenge Bank Limited US \$250,000,000 Floating Rate Notes due 1997 (the "Notes") that, pursuant to Condition 14 of the Notes and the provisions of Schedule 3 of the Trust Deed dated 9 December 1994 (the "Trust Deed") relating to the Notes and made between the Issuer and Bankers Trustee Company Limited (the "Trustee") as trustee for the Noteholders, a meeting of the Noteholders will be held at the offices of Chifford Chance, 200 Aldersgate Street, London ECIA 411 on 8 January 1997 at 11 a.m. (London time) for the purposes of considering and, if thought fit, passing the following resolution which will be proposed as an Extraordinary Resolution in accordance with the provisions of the Trust Deed.

EXTRAORDINARY RESOLUTION

THAT this meeting of holders of the outstanding US \$250,000,000 Floating Rate Notes (the "Notes") issued by Challenge Bank Limited (the "Issuer") constituted by the Trust Deed (the "Trust Deed") dated 9 December 1994 made between the Issuer and Bankers Trustee Company Limited as Trustee (the "Trustee") for the holders of the Notes (the "Noteholders");

- (i) approves the substitution of Westpac Banking Corporation in place of the principal debtor under the Trust Deed, the Notes and the Coupons;
- (ii) approves the amendment of the Trust Deed, inter alia, to delete the negative piedee and bstitute new Events of Default (as defined in the Trust Deed);
- (iii) approves and authorises the execution of a Supplemental Trust Deed (the "Supplemental Trust Deed") effecting, inter alia, the substitution and amendments substantially in the form produced to the Meeting and initialised by the Chairman for the purposes of identification;
- (iv) authorises the parties to do such further things and execute all such further documents as the Trustee may in its discretion consider accessary or desirable to give effect to the terms of this
- of the Noteholders involved in or resulting from the modifications to be made to the Trust Deed and the terms and conditions of the Notes by the Supplemental Trust Deed and paragraphs (I),

The business and property of Challenge Bank Limited (apart from certain excluded assets and related liabilities, including the obligations of Challenge Bank Limited under the Trust Deed) have been or will be vested in Westpac Banking Corporation pursuant to legislation in those Australian States where Challenge Bank Limited has operations (the "Merger"). Westpac Banking Corporation has agreed to be substituted as the Issuer in respect of the Trust Deed provided that the Conditions and the Trust Deed are amended as set out in a supplemental trust of the Irust Deed provided that the Conditions and the Irust Deed are suicined as set out in a supplemental trust deed (the "Supplemental Trust Deed"). Accordingly, the Issuer proposes that, and Westpac Banking Corporation agrees that, subject to the passing of the Extraordinary Resolution (the "Resolution") set out above. Westpac Banking Corporation shall be substituted as the new Issuer under the Trust Deed. Listing of the Notes will be maintained on the London Stock Exchange and will be the subject of further listing particulars (the "Supplemental Listing Particulars") setting out certain information regarding Westpac Banking Corporation.

The Issuer has accordingly convened the Meeting of Noteholders by the above Notice to request their agreement by Extraordinary Resolution to the matters contained in the Extraordinary Resolution. The attention of Noteholders is particularly drawn to the quorum required for the Meeting and for an adjourned Meeting which is set out in paragraph 2 of "Voting and Quorum" below.

Copies of the Trust Deed, the Terms and Conditions of the Notes, an Explanatory Letter for the Noteholders (setting out further details of the Merger and of the reasons why the obligations of Challenge Bank Limited under the Notes have been excluded from the Merger and providing financial information relating to Westpac Banking Corporation), the Supplemental Trust Deed in substantially the same form as it is proposed it shall be executed (if the Resolution set out above is passed) and of the Supplemental Listing Particulars substantially in the form in which they will be submitted to the London Stock Exchange are available for inspection or collection at the offices specified below of The Classe Manhattan Bank (the "Principal Paying Agent" and "Agent Bank") and Chase Manhattan Bank Luxembourg S.A. (the "Paying Agent"), together the "Paying Agents".

In accordance with normal practice the Trustee expresses no opinion on the ments of the proposed modification but has surhorised it to be stated that it has no objection to the Extraordinary Resolution being submitted to Notcholders for their consideration. The Trustee was unable, without financial advice, to evaluate whether the deletion of the negative piedge from the Trust Deed and the changes to the Events of Default set out in the Supplemental Trust Deed as referred to in the Extraordinary Resolution were not materially prejudicial to Noteholders.

1. A Noteholder wishing to attend at the Meeting in person must produce at the Meeting either the Note(s),or a valid voting certificate issued by a Paying Agent relating to the Note(a) in respect of which he wishes to

A Noteholder not wishing to attend and vote at the Meeting in person may either deliver his Note(s) or valid voting certificate(s) to the person whom he wishes to attend on his behalf or give a voting instruction form (on a voting instruction form obtainable from the specified offices of the Paying Agents set out below) instructing a Paying Agent to appoint a proxy to attend and vote at the Meeting in accordance with his Notes may be deposited with any Paying Agent or (to the satisfaction of such Paying Agent) held to its order

or under its control by Cedel Bank or the Operator of the Euroclear System or any other person approved by it, for the purpose of obtaining voting certificates, or, not later than 48 hours before the time appointed for holding the Meeting (or, if applicable, any adjournment of such Meeting), giving voting instructions in respect of the relative Meeting. Notes so deposited or held will not be released until the earlier of the conclusion of the Meeting (or, if applicable, any adjournment of such Meeting) and the surrender of the voting certificate(s) or, not less than 48 hours before the time for which the Meeting (or, if applicable, any ent of such Meeting) is convened, the voting instruction receipt(s) issued in respect thereof.

The quorum shall be 2 or more persons present in person holding Notes, woting certificates or being proxies and holding or representing in the aggregate not less than 75 per cent. In principal amount of the Notes for the time being outstanding, not being Notes which are beneficially held by or on behalf of the Issuer or any of its Subsidiaries and not yet cancelled.

If within 15 minutes (or such longer period not exceeding 30 minutes as the Chairman of the Me decide) from the time fixed for the Meeting a quorum is not present the Meeting shall stand adjourned for en 42 davs, and in s appointed by the Chairman of the Meeting. At such adjourned Meeting the quorum shall be two or more ions present in person bolding Notes or voting certificates or being proxies and holding or repres in the aggregate not less than 25 per cent. in principal amount of the Notes for the time being outstand

Every question submitted to the Meeting will be decided on a show of bands unless a poll is duly demanded by the Chairman of the Meeting, the Issuer, the Trustee or by one or more persons holding one or more Notes or voting certificates or being proxies and holding or representing in the aggregate not less than 2 per cent. in principal amount of the Notes for the time being outstanding. On a show of hands every person who is present in person and produces a Note or voting certificate or is a proxy shall have one vote. On a poll every person who is so present shall have one vote in respect of each US \$1,000 principal amount of Notes so produced or represented by the voting certificate so produced or in respect of which he is a proxy.

To be passed, the Extraordinary Resolution requires a majority in favour consisting of not less than three-quarters of the votes cast. If passed, the Extraordinary Resolution will be binding on all the Noteholders, whether or not present at such Meeting and whether or not voting, and upon all the holders of the coupous relating to the Notes.

Principal Paying Agent and Agent Bank The Chase Manhattan Bank Woolgate House, Coleman Street London EC2P 2HD

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ING BANK

December 1996

Page printed to the p Pod property (1986) 11.50 (1986

COMPANIES AND FINANCE: THE AMERICAS

Union Carbide warns of price rises

By Tracy Corrigan in New York

Union Carbide yesterday said it planned to increase prices across a broad range of products on January 1 in an attempt to absorb escalating raw material costs, but warned that the price rises would come too late to soften the impact of higher raw material costs

Dr William Joyce, Union Carbide chairman and chief

tactical shuffling,

Tele-Communications Inc, the US entertain-

ment media group, appears

to have elected to take a

stand in the territory it

If all goes according to

plan, its Liberty Media pro-

gramming subsidiary and its international operations will

be spun off as stand-alone

companies. They will join TCI Satellite, a direct-to-

home satellite TV business,

which formally started trading as an independent entity

That will leave Mr John Malone's media empire

stripped to its core business

as a leading cable TV pro-

vider with links to 14m US households, and better

placed to focus its attention on the sharpening competi-

tion from fast-growing satel-

But that is only one of the scenarios postulated last

week following a week-long

flurry of announcements on

spin-offs, price hikes and

programming changes which

culminated in a terse release

outlining plans to shed 2,500

workers and cut the pay of

The cuts, expected to

costs by \$100m, were seen by

the company, traditionally viewed as one of the leanest

in the business, was in more

difficulties than hitherto

attract a partner - prefera-

bly a telecommunications

TCI, which came within an

ace of merging with Bell

Atlantic in 1994, needs cash.

In return it has the links

telecoms carriers need for

access to regional markets

AT&T, the leading US tele-

coms concern, has already

joined forces with DirecTV.

the General Motors-owned

satellite service which is set-

ting the pace in the introduc-tion of multi-channel digital

TCI shares have lost about

25 per cent of their value

this year against a back-

ground of persistent reports

that cash flow, mostly from

its cable operations, has

been insufficient to service

the group's other ambitions.

The strain on resources.

already considerable because

of the start of expensive

upgrading work to increase

the programme-carrying

capacity of the cable

networks, has been exacer-

bated this year by satellite

providers' first substantial

inroads into the domestic TV

The number of subscribers

to DTH services, encouraged

by sharp price cuts, is on

track to more than double

this year to 5m at the start

of a progression which is

forecast to exceed 20m some

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in accordance with the terms are conditions of the Notes, notice is hereby given that for the three months from 10th December 1096 to 9th March 1997 the Notes will

bear interest at 6.455% per annum.

The interest amount payable per

£10,000 Nore will be £159.16 and per £100,000 Note will be £1,591.64, on 10th March 1997.

ACENT BANK MARCLAYS BANK PLC

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BARCLAYS

To offset these inroads

market.

time in 2001.

television to the US.

and entertainment services.

group - into a merger.

reduce annual operating ties, including full Internet

some analysts as a sign that services not yet available via

senior executives.

knows best.

last week.

lite services.

was likely to reduce fourth quarter earnings per share by at least 25 cents from the third quarter level of \$1.08.

Furthermore, he said that operating profit for the company's specialties and intermediates business would decline from third-quarter levels because of seasonal weakness in addition to the on its fourth-quarter increased raw material and energy costs.

Full-year operating profit was likely to increase by 3-5 executive officer, said the per cent, instead of the tar-impact of rising raw geted 10 per cent, Dr Joyce

TCI feels the squeeze

The need to meet competition from satellite services has stretched the US group's resources

from competitors offering

200-plus digital-quality chan-

nels, cable providers - many

of which can squeeze fewer

than 40 down existing lines

- are rushing to introduce

compression technologies to

boost volume. This will open

up a spectrum of possibili-

access, telephony and other

An indication of the costs

emerged in TCI's third-

which showed the company

restructuring intended to upgrading its cable net- toon Network, Encore Plex,

works. The spun-off satellite

operations absorbed a fur-

study from Donaldson, Luf-

kin & Jenrette, the New

York-based securities house,

cable operators are being

forced to surrender their

effective monopoly over

multi-channel television

dominate with about 64m

subscribers, against 3.4m at

the last count for satellite,

DLJ predicts cable sub-

scriber growth will slow to a

stop by the end of the decade

when new satellite signings

Although TCI recently

announced some subscrip-

tion increases, the new com-

petition limits its scope for

further rises in the foresee-

new sources of revenue,

which TCI has been quick to

exploit. The newly-config-

ured entertainment industry

has been cranking up the

volume of programming in

anticipation of the 200-plus

channel era, providing a

window of opportunity for

While the makers of popular, established products

such as Cable News Network

and ESPN, the Walt Disney-

owned sports programme,

charge cable companies a

fee, newcomers are increas-

ingly prepared to pay for

Happily, there are other

are expected to peak.

able future.

While they continue to

According to a recent

Others suggested they spent \$430m in the reporting Palmer, the group's pro-

quarter results in October,

standard satellite.

ther \$125m.

services.

fter years of restless TCI-good cause to reflect

that the company was ahead for many of its solvents, added that the return of seaof schedule for reaching its monomers and intermedi- sonality to the specialties \$637m target of cost reductions by 2000.

Carbide plans to increase polyethylene prices by 5 cents a pound and ethylene glycol prices by \$70

However, Mr Paul Raman. chemicals analyst at Paine-Webber, said he was sceptical about the group's ability to impose such an increase in polyethylene prices, which have been coming

under pressure recently. Carbide said it also

access to a wider audience.

an estimated \$10 for each

subscriber it connected to

Fox News, News Corpora-

tion's recently-introduced 24-

hour TV current affairs net-

work. In the process, for lack

of bandwidth, several other

networks found themselves

displaced in many of TCI's

1,300 cable systems to make

Animal Planet (Liberty

Media owns stakes in all

three) and Home & Garden

Television join the TCI

line-up. Home & Garden is

believed to have offered to

pay \$6 for each new book-up

But even here the opportu-

nities are limited, both by

the cable industry's strenuous efforts to expand its

capacity and the satellite

operators' aggressive inroads

into the market. With ample

bandwidth expected,

hook-up payments may well disappear before the turn of the century.

By then, according to

industry estimates, 80 per

cent of the conventional

cable systems in the US will

have been upgraded to allow

them to carry 200 channels

The timing coincides

almost precisely with the 1998 launch schedule for an

ambitious \$3bn joint satellite

TV and services venture

when News Corporation and

MCI, the long-distance tele-coms carrier, join the fray.

good cause to reflect that the

mate" which wrecked Bell

Atlantic's \$25bn TCI take-

over three years ago was a

mere breeze compared with

the approaching competitive

Christopher Parkes

Ілтеко Вигореан Warrace Fup

unsettled regulatory cli-

The earthbound Mr Malone may already have

to a cabled home.

he squeeze will inten-

sify next month,

according to Mr Jedd

space for the interloper.

TCI, for example, was paid

Dr Joyce said that soaring raw material costs had

significantly eroded the company's profit margins, espepany's profit margins, and cially in polyethylene and ing.

The industry faces high. ethylene glycol and noted important raw material, was than in the third quarter.

Mr Raman said that earnsqueezed by the increase in peak of the cycle.

material and energy costs added However, he also said planned to increase prices raw materials prices. He and intermediates business, which disappeared during the economic of recovery of the past few years, was a sign that the cycle was turn-

> that the cost of ethane, an feedstock costs for the next couple of quarters then rislikely to average 8 cents a ing capacity towards the end gallon higher in the fourth of 1997," said Mr Raman, adding that companies still typically spend the money to ings across the chemicals build plants when they have it, which tends to be at the

AMERICAS NEWS DIGEST

Magellan renews faith in technology

Fidelity's Magellan, the largest US mutual fund, is continuing its retreat from bond investments in favour of a return to its traditional heavy weighting in technology stocks, according to figures released by the Boston-based fund manager yesterday.

During the month Mr Robert Stansky, who took over as the fund's manager at the beginning of June, reduced its: bond weighting from 9.8 to 8.7 per cent, while its share of technology stocks rose from 10.1 to 11.6 per cent. Six months ago, the fund had a 19.2 per cent bond weighting, but only 3.2 per cent in technology stocks.

Intel, the largest semiconductor manufacturer, is now the fund's single largest equity holding. Its top 10 holdings at the end of October also included Conrail and CSX, two railway companies which announced plans to John Authers, New York

Ontario Hydro takes charge

Ontario Hydro, one of Canada's two biggest power utilities, is taking a C\$2.5bn (US\$1.84bn) special charge covering problems with its nuclear stations and accounting changes and will report a 1996 loss of about The writedown includes C\$250m for the early shutdown

of a reactor at the Bruce generating station. Though this reactor had a design life of 40 years, the utility has decided not to retube it and it will close in 2000, reducing its life to 23 years. Another C\$400m covers underfunding of maintenance at its nuclear system. Ontario Hydro - a large international borrower - has

been restructured since 1993 because of slow demand growth in the recession. About 60 per cent of its power is nuclear-generated. Before the special charge, the utility had expected to post a 1996 profit of about C\$600m.

"These steps will help to get their cost base down and will improve future profitability." said Mr Walter Schroeder, head of Dominion Bond Rating Service, Canada's biggest bond rating agency.

Robert Gibbens, Montreal

RBC plans big-project arm

Royal Bank of Canada is to set up a C\$500m (US\$360m) subsidiary to make equity investments in medium sized private companies. The new unit will take equity stakes in companies that have moved beyond the venture capital phase, including leveraged buyouts, acquisitions and turnround businesses. The company, to be named RBC Merchant Bank, will be chaired by Mr Anthony Fell, who is chief executive of RBC Dominion Securities, the bank's investment banking arm. It is expected to open for business on January 1.

"It is geared to originate and structure large, complex transactions and to become the most significant source of private equity in Canada," Mr Fell said. RBC's existing venture capital business, Royal Bank Capital Corporation. usually invests between C\$2m and C\$5m in companies whose total value is less than C\$75m.

RBC Merchant Bank, on the other hand, will target companies worth more than C\$75m which can expect to move to a stock market listing in a relatively short time. The new operation will be jointly managed by Mr George Engman, currently head of the private equity group of the Ontario Teachers Pension Plan, and Mr Philip Olsson, vice-chairman of RBC Dominion Securities.

George Graham, Banking Correspondent

MCI closes online shop

MCI Communications is to close its one-year-old music retailing business and an on-line shopping service, saying people liked to window shop but weren't buying.

The long-distance telecommunications company has een winding down the ventures, which began in November 1995. MCI spent about \$10m developing and promoting the service, the company said. It needed to make only a minimal investment to provide the service because it uses many of the resources - transmission, billing and customer service systems – already in place.

MCI also sold the music products through its on-line shopping service, Marketplace MCI, on the World Wide Web portion of the Internet.

Imsa IPO raises \$142.5m

Industrias Monterrey (Imsa), a Mexican steel, construction and battery making conglomerate, raised \$142.5m in an initial public offering sold on the US, international and Mexican markets. The company sold 7.5m American depositary shares at \$19 a share, with 3.5m of the total sold on the US market, 2m sold to international investors and the remaining 2m on the Mexican market. AP-DJ. Monterres.

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Notice to shareholders

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ASIA TIGER WARRANT FUND

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Marie Congression

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Telkom raises \$600m through share sale the "ability of the market to short more Telkom shares" raised will accelerate in the "ability of the market to short more Telkom shares" raised will accelerate in the sale.

The indonesian government has sold 388m of the shares it owns in Telkom in a US\$600m private placement. The sale is part of its unfinished privatisation of the state-controlled domestic telecommunications com-

The private placement,

which the size and price of the deal. the offer was scaled back The shares will be sold on

Makindo Securities and Deutsche Morgan Grenfell,

tional demand.

expected to follow last year's and Bahana Securities, acted initial public offering, in as government brokers in government had decided not

because of poor interna- to institutional investors at to avoid time-consuming pro-Rp3,700 each, brokers said. cedures such as road shows The placement was made Offers for the private placethrough local brokerage firm ment ranged from Rp3,400 to Rp3,650 a share. The placement will raise US\$600m, but which will place a number of it is not clear how much

finance minister, said the

to divest shares in the form of a second offering, in order and bookbuilding. He mid-August after political declined to say whether fur-riots in July. ther placements could be

expected The size of the placement,

absorb more Telkom shares" raised will accelerate repayfollowing robust perfor- ment of the high-interest mance of the Jakarta Stock portion of the government's Exchange Composite index The index has surged to allyear highs in recent weeks

The placement is the sec-

the "ability of the market to Negara Indonesia. Funds foreign debt

Telkom's IPO in November last year was scaled back since a low of 580 points in from 27.5 per cent of the company to 19 per cent and the share price cut to Rp2.050. Telkom shares ond privatisation this year closed yesterday down Rp25 following last month's IPO of at Rp3,850, with 9.5m shares

> Lankan production hitting the industry in Kerala and

Tamil Nadu, the two states

in south India where it owns a large number of estates.

AFT Industries, which has

all its estates in the highly

productive north-eastern

state of Assam but which sells all its tea in bulk,

posted a 1.33 per cent drop in

operating profits to

Rs141.1m, on a 6.42 per cent

fall in sales to Rs328m. Net

profits rose 1.15 per cent to

Rs79.4m because of a lower

tax provision of Rs55m,

against Rs58m in the year-

ago period.

The company hopes to

raise export sales to Rs150m

in the current year from

George Williamson, which

owns some of the finest

properties in Assam, lifted

operating profits by 147 per

cent to Rs347m on the back

of 37.35 per cent growth in

income to Rs945m. This

included a one-time profit of

Rs101.2m on the sale of

investments. Net profits rose

230 per cent to Rs219.2m.

Rs18.6m last year.

ASIA-PACIFIC NEWS DIGEST

Sime Darby eyes Oriental stake

Sime Darby, Malaysia's biggest conglomerate, has been given approval to start talks on acquiring a majority stake in Oriental Bank, a local commercial bank. Such a merger would create the fourth-largest Malaysian bank by sets, analysts said.

The permission from Bank Negara, Malaysia's central bank, clears the way for a merger between Sime Darby's banking subsidiary, United Malayan Banking, and Oriental Bank. If the merger goes through, it would confirm that consolidation in Malaysia's overcrowded banking industry has begun. The nation's leading stockbroker and two local banks agreed last month to form a diverse financial services group under a holding company called Rashid Hussain.

Sime Darby said it had not yet begun negotiations on its proposed acquisition of Oriental Bank, but the fact that Bank Negara has given approval for the talks suggests that both Sime and Oriental have signalled an

Oriental Bank is a subsidiary of Malaysian Industrial Development Finance, which owns 78 per cent of the

The government has a long-standing policy of urging consolidation among the 37 commercial banks in Malaysia in order to prepare the local industry ahead of market liberalisation expected in the first few years of the next century. Malaysia is also hoping that bigger, more sophisticated banks will be better able to support an increasing number of companies investing offshore. James Kynge, Singapore

Samsung lifts KorAm stake

Samsung, the South Korean industrial and electronics conglomerate, has increased its stake in KorAm Bank from 14.25 per cent to 17.60 per cent. The Korean Stock Exchange said Samsung Electronics and five other Samsung units bought the shares in the joint venture commercial bank between July and November. KorAm's largest shareholder is Bank of America with

18.55 per cent, while Daewoo, the industrial group, owns 11.76 per cent. Shares in KorAm closed Won560 higher yesterday at Won7,560 amid speculation over competition between the main shareholders for a controlling stake. AFX-Asia, Seoul

DB to reduce capital

DB Group, the New Zealand brewery and liquor group controlled by Heineken through Asia Pacific Breweries, yesterday announced a capital reduction which will see NZ\$181m (US\$126.6m) returned to shareholders

Directors said that capital investment could be supported by future cash flows and that current cash balances were surplus to future requirements. The annual meeting in February will be asked to approve a proposal to cancel three out of every four shares on issue and to repay 60 cents for each cancelled share.

DB Group said that in the year to September 30 it made a net profit of NZ\$30.4m, compared with NZ\$27.3m a year earlier, against which a NZ\$10m provision had been made for tax losses. Sales were NZ\$650.4m , against NZ\$658.3m. The company said that in the past 12 months the total beer market fell 2.4 per cent, as margins came under pressure from discounted imported brands.

Terry Hall, Wellington Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com.

represents 4.15 per cent of the shares in the US. Two the government has received he said, was determined by the state-owned Bank changing hands. Indian tea-producers serve up mixed results

Magellan renes Indian tea producers faith in technolog reported mixed results for the six months to September 30, with strong increases coming from companies focusing on quality and

added value.

The outlook for the industry in the second half, however, is relatively bleak because of plunging export sales and sharp increases in production. Tea auction prices have

fallen since September, according to analysts. The prices of medium and plain varieties of tea have fallen between Rs3 and Rs6 per kilogramme. Only the best grades, which account for about 80 per cent of the country's production, have held their prices. Increases in wages within the industry and in fuel prices have also undermined the performance of tea companies.

Tata Tea, the country's largest plantation group, lifted operating profits by 25.5 per cent to Rs595m

By Michiyo Nakamoto in Tokyo

tal display panels.

Sanyo, the Japanese electronics

manufacturer, is investing Y47on

(\$417m) in a new plant in western

Japan to produce large liquid-crys-

transistor (TFT) LCDs, which are high-quality LCDs used mainly in

notebook PCs. Sanyo already man-



Focusing on quality: only the best grades of tea have maintained their price recently, and second-half prospects are bleak

plant to reach Y50bn by 2000.

(STN) LCDs, which provide graph-

Mr Hideo Kondo, general man-

ager of Sanyo's semiconductor

business, said the company had

decided to enter the TFT-LCD busi-

ness because of growing demand

market when production at its new

plant starts in about a year and a

half. Mr Kondo said "we believe

ics of lower quality.

The new plant marks Sanyo's for the product. Although Sanyo

entry into the market for thin-film will be a latecomer to the TFT-LCD

ufactures super-twisted nematic this is still a promising market".

(\$16.57m) on the back of a 40 Re353m. Earnings per share in value-added packets and in bulk at the auctions were up nearly 25 per cent to kets a large portion of its tea than the groups that sell tea been higher but for Sri

Sanyo moves into market for latest LCD

per cent rise in income to rose to Rs14.52 from Rs9.48. polybags as branded prod-Rs3.25bn. After-tax profits The company, which mar-ucts, performed much better The company, which mar- ucts, performed much better Tea's profits would have

Analysts say that Tata

Sanyo's new facility will speci-Y640bn in the year to March and alise in 12.1-inch panels, which are will grow to about Y1,200bn by

the largest size currently available for TFT-LCDs. The company A shift to larger-sized panels and a slowdown in the supply of comexpects sales of the panels from the ponents have meant that LCD sup-Although competition is fierce ply this year has not kept up with and prices have fallen substan-

While LCD panels have been tially over the past year, demand for LCD panels has recovered sigused mainly in smaller, portable nificantly and is expected to grow. products, such as video cameras, Sharp, the market leader, estimates car navigation systems and notethe market will be worth about book PCs, technological advances next year.

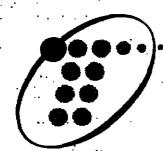
making larger panels possible have fuelled expectation that LCDs will increasingly be used for desktop PCs as well.

Although the consensus is that TFT-LCDs will be the standard because of their higher-quality graphics, Sharp is working on improving the quality of STN-LCDs and has already announced that it will mass-produce 21.4-inch panels for desktop PCs towards the end of

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Scandinavian side helps Airtours rise 46%

By Scheherazade Daneshkhu

Airtours, the rapidly expanding package holiday company, signalled that the UK holiday market had bounced back after last year's depressed conditions by delivering a 46 per cent rise in pre-tax profits and an upbeat view of the prospects for next year.

Recovery in the UK market and a strong performance in its Scandinavian operations, which accounted for more than a third of total

Improved

margins

at Avon

By Roland Adburgham

Fast growth in sales of

automotive components and

improved margins in its two

other divisions have lifted

Avou Rubber's pre-tax prof-

its for the year to September

The result - up from

£16.2m to £21.5m (\$35.3m)

and slightly ahead of ana-

lysts' forecasts - was

achieved on sales of

£347.5m, a 13 per cent gain.

The automotive compo-

nents' division accounted

for nearly half of group

sales, with demand for fuel

and vapour hoses in the US

and from Ford - for coolant

hoses for its Fiesta pro-

gramme - helping to lift

divisional turnover by

nearly a quarter to £161.6m.

division rose by a fifth to

film, with margins impaired by the injected

rubber products business in

the US and by the polymers

division improved operating

profits by 17 per cent to

£7.1m on turnover 7 per

rials saw turnover rise 4 per

cent to £97.4m. But

improved margins lifted

operating profits 39 per cent to £6.9m. Although demand

for tyres in the UK was

down, exports increased.

Tyres and processed mate-

The technical products

business in France.

cent un at £88.6m.

Operating profits in this

28 by a third.

£86.8m (\$142.4m) in the year to September 30.

This was helped by a change in accounting policy which added £1.7m to profits but was still at the top end of expectations. The shares rose 11½p to 714½p. Mr David Crossland, chair-

man, said capacity cuts in the UK had led to higher prices. Net profit per passenger rose from £9 to £14 in the year to September 30; prices of discounted late holidays were 30 per cent higher than

profits, helped push pre-tax in summer 1995. Last year "If this position is main- son flight delays: profits up from £59.4m to its profits fell by more than tained across the industry, 20 per cent compared with the rewards could be sub-1994. In 1995 the 30 largest UK package holiday companies incurred net losses of £10m. according to the Civil Aviation Authority.

UK tour operators reduced

the supply of summer holi-

days for 1996 by 10 per cent to 8.5m, resulting in fewer late bargains. Airtours - the UK's second largest tour operator with a 20 per cent share -

intends to keep capacity to

the same level next summer.

stantial," said Mr Crossland. Thomson, the largest tour operator with 30 per cent of the market, said yesterday that prospects for next summer were buoyant as long as operators held firm on

First Choice, the third largest operator, is expected to unveil substantially improved full-year results next week but analysts expect Inspirations to report

Mr Crossland said he was confident the Monopolies and Mergers Commission investigation into the ownership links between tour oper-

ators and travel agents

would reveal the UK indus-

try was one of the world's

most competitive. Airtours would continue to diversify into an international leisure group. It was now the largest air-inclusive tour operator in the world, carrying 5m passengers a

year, he added. Airtours, in which Carni-

val Corporation, the largest US cruise line, took a 29.6 per cent stake in April and made a £100m cash injection, had the resources to spend £200m on acquisitions without going to shareholders, he said. The main areas for expansion include the Medi-

terranean cruise market. The company also had ambitions to become a big player in Canada and America and to increase its operations in another Scandinavian market – possibly Finland - as well as another

Airtours is demonstrating that geographically diversified tour operators can make a decent and not particularly volatile living. Publicity over package holiday price wars in the UK continues to dog investment ratings for the industry. But Airtours' investments in Canada and Scandinavia have meant that UK earnings amount to only about half

Share crice relative to the ETSE. All-Share Index since for the group total. And with its £80m investment in Sweden having been fully paid back, Airtours should

have little difficulty finding profitable homes for its £200m or so of surplus cash That said, the UK market remains unpredictable. Last year, Airtours' profits per UK passenger rose from £9 to £14, but these paltry returns remain vulnerable. The current pick-up in early bookings, reversing the trend for last minute bargain hunting, could encourage tour operators to cash in by offering more holidays. The industry must also absorb tax increases on holiday insurance. Mean while, a Monopolies and Mergers Commission investiga-tion into vertical integration within the industry is

unlikely to be resolved much before next November. Airtours's shares have risen to a prospective price-earn ings multiple in line with the market average. The removal of its significant traditional discount looks deserved, given the success of its diversification. Besides having Carnival as a 30 per cent shareholder, and poten tial bidder, limits the downside. But while the MMC threat remains, a further rerating looks unlikely.

a £13m loss after peak-sea-Difficult markets hold back David S Smith By Michael Lindemann analyst described as "an ini- risen 6 per cent in the third tial attack of nerves" they quarter of this year com-

David S Smith, the paper and packaging group, yesterday reported a 2 per cent fall in interim pre-tax profits and warned that earnings would be lower again in the second half, reflecting difficulties in continental European mar-

However, the company said it expected a recovery ket. half-way through next year. Mr Peter Williams, chief executive, blamed the lower profits in the six months to

November 2 on weaknesses

economies and said ster-

in the German and French

ling's strength had dented hopes for the second half. The shares initially fell 18p to 288¼p on news that profits had fallen from £59.6m to £58.6m (\$96m). said was an early indicator

edged upwards to close at Mr Williams said the com-

petitive European market for packaging and the sudden rise in sterling had dealt the group a double blow because they had lured several "desperate" European manufacturers back into the UK mar-

We are seeing people in the UK who we have not seen for a long time," he said. The problems were compounded by new capacity in Europe and the recent French truckers' strike

Mr Williams said he expected the outlook to improve for corrugated paper in Gerin about six months. Demand for corrugated

board, which Mr Williams However, after what one of economic prospects, had

quarter of this year compared with the same period last year. "The numbers suggest there is something happening," he said. "Sentiment will change in about six

Analysts shared Mr Williams' views about the likelihood of a European recovery and pointed out that the group would stand to benefit considerably once this hap-

"Most investors think continental Europe will pick up," said Ms Francesca Raleigh at Panmure Gordon, the

New production capacity many, Belgium and France would increase competition, but the oversupply was not

Vector buys 15 Caradon businesses

By Andrew Taylor.

Peter Williams: sterling's strength has dented hopes

NOW YOU'RE REALLY READY FOR BUSINESS.

1997

DIARY

FINANCIAL

Vector Industries, of which CINven, the former development capital arm of the British Coal pension fund is the biggest shareholder, has paid about £200m (\$328m) to purchase 15 engineering businesses from Caradon, the building materials group. The purchase is thought to

Vector. CINven has increased its stake from 55 per cent to 72 per cent. Vector's other main shareholder, 3i, has an 18 per cent stake and Vector's management 10 per cent.

The company was started in 1993, with the support of CINven and 3i, to invest in manufacturing businesses.

bring nearer a flotation of chase, its turnover is expected to rise to £357m generating an estimated operating profit of £31m for the year to March 31 1997.

Caradon announced this summer that it was negotiating to sell its non-core European engineering businesses for about £190m. The purchase price agreed with Vector is made up of £183.6m Following the latest pur- cash and a 26m subordinated

loan note payable over seven for £20m years. A further 210m is payable to Caradon if target rates of return are achieved by the busines

These include companies from Caradon's distribution, plastics, ventilation and automotive and avlation components divisions. Caradon announced earlier this month that it had sold its

The businesses bought by Vector made pro-forma profits of £21m on sales of £264m, according to Caradon, which said the proceeds before expenses were about the book value of the assets.

The disposals should leave the group debt free to concentrate on its core Euro-

Restructuring bears fruit as NFC rises 39%

£35m restructuring programme continued to raise the proportion of revebear fruit at NFC as the nues derived from more proftransport and logistics group raised underlying pre-tax under which the group acts profits by 39 per cent to £105.7m (\$173.3m).

Including exceptionals mainly last year's charges of £37.6m - pre-tax profits UK and Ireland rose 28 per nearly trebled from £38.6m to £105.2m.

Sir Christopher Bland, chairman, said the new management, appointed in June 1995, had "the confidence of a record for the first time". Sales increased 12 per cent to £2.46bn. Continental

Europe continued to make heavy, though reduced. losses of £8.5m (£10.1m). Sir Christopher said the group was left with the legacy of a "clutch of lousy businesses which have consistently underperformed". However, it was unable to sell them: "Divestment is not

our way out of trouble. Mr Gerry Murphy, chief executive, said two-thirds of the group's revenues in continental Europe were derived from "network" logistics, under which the group tried to match truck schedules at 175p.

an option. We have to trade

with the distribution patterns of several customers. The group was aiming to itable "contract" business, as a dedicated co-ordinator of the logistics activities of a

cent to £78.3m, as cost cut-ting fed through to the bottom line. In North America, where the group had little exposure to the difficult grocery retailing market and virtually no "network" logistics business, the operating surplus jumped 73 per cent

to £25.5m. Capital expenditure fell from £247.2m to £106.8m, as property disposals rose and the group cut its gross capital spending. "We are being much more vigorous in the application of capital," said Mr David Finch, finance director. The remaining £18.5m of the reorganisation provision would be used in

the current year. Earnings per share were 8.9p (2p). A final dividend of 4.6p gives an unchanged total of 7.1p.

particular company.

Operating profits in the

The shares closed down 5p

pigment side

NEWS DIGEST

Cookson, the industrial materials group, faces a £60m (\$98.4m) write-off arising from its plans, detailed yesterday, to withdraw from the manufacture and sale of industrial pigments. The write-offs, comprising £30m of goodwill and a £30m loss on disposal, will push total exceptional charges this year to more than £100m,

Cookson exits

analysts said. Shares in the group, which has been hit by a series of profit downgrades because of soft demand at its electronic materials business, eased 6%p to 211p.

Analysts said the write-offs were greater than expected but they welcomed the long-awaited exit from pigments. Cookson plans a phased withdrawal from the business, which makes and sells materials used to colour plastics, inks and paints. Hoechst Celanese Corporation will acquire the rights to Cookson Pigments' range of organic pigments for \$19m, and pay a further \$5m for the related

inventory of finished goods. Cookson will retain ownership of the production assets. and maintain supply of pigments for up to two years before closing the plant at Newark, New Jersey. It will enter into licensing and service agreements with Hoechst.

Discussions are also "at an advanced stage" for sale of the inorganic pigments business to Dominion Color Corporation. If a deal is agreed, Dominion will pay a little supply pigments for up to two years.

Closure costs of about £5m, including redundancy payments for 50-100 people and site restoration costs, are included within the provisions.

Mr Dennis Millard, Cookson's finance director, said that under FRS 3 the £30m goodwill write-off was largely a technical adjustment. The withdrawal would marginally reduce gearing and be earnings enhancing, he said.

Thorntons sells French shops Thorntons, the UK chocolate maker and retailer, has

found a buyer for its 21 shops in France. The business lost £655,000 in the year to June 29, when its net assets were £3.9m. Thornton's described the

consideration as nominal. The group decided in the summer to withdraw from its ossmaking operations in both France and Belgium, either

by closing or selling them. In October it reported a £13.8m loss for the year after exceptional charges of £21.9m, including £7.9m for withdrawal from Europe. Mr John Thornton, chairman, said vesterday that the sale would mean that the cost of getting out of France

would be materially less than the £5.3m provision. The buyers are the shareholders of Jeff de Bruges, a confectionery retailer operating more than 100 franchises across France. It is partly owned by Neuhaus-Mondose, a specialist Belgian chocolate maker.

Manchester Utd share placing Manchester United yesterday placed 3m shares with City

institutions to raise £16.7m (\$27.4m) for the continued fit-out of the north stand at its Old Trafford stadium and the building of a new training ground. The Premier League club, whose shares were yesterday

admitted to the FTSE-250 index, went out of its way to say the proceeds from the equity sale would not be spent on

The placing involved the sale of 3m shares - equivalent to 4.84 per cent of the share capital – at 585p each to a group of City institutions. It is the first time the club has come to the market to raise funds since its flotation in

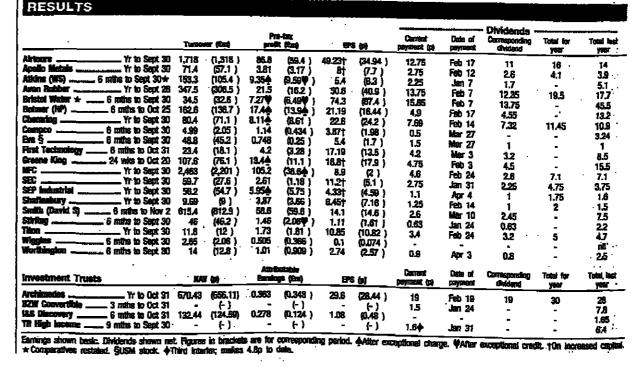
July 1991. The shares closed up 6½p at 584p. Patrick Harverson

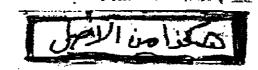
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Kuwait

Stability has a brittle quality

This oil-rich country appears to be recovering from Iraq's invasion. But beneath this deceptive veneer is a multitude of problems, some fed by a generous welfare state, writes Robin Allen

be deceptive. The country side officials and the small has not exhibited so much stability since January 1990, when police used teer-gas to quell street rioters demanding the recall of parliament. Then came the stab-in-theback from Iraq: six months Any suggestion that the govof brutal occupation, followed by liberation and months of poisoned air from burning oilfields.

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Today, the country seems hension. repaired, even sleek in some areas. Buoyant oil revenues make for money in the pocket. Peaceful elections have been held, and the government is in control. Banks market has risen. Foreigners are back to do the work, and

But look beneath the surface and Kuwait's stability has a brittle quality.

Ask Kuwaitis to identify their country's top priority and the answer will be strange about that. Most define it as security against the threat from Iraq, while some younger ones say it is domestic security in the form of salary, employment and the welfare state.

There is a twist, however. in that it is their conviction that others, rather than themselves, will provide all this security. Most Kuwaitis expect the US and "other friends" to defend them against Iraq, and the government to provide them with the money and the subsidies to which they believe they are entitled.

There is little interest and less enthusiasm for joining them to a "job".

Appearances in Kuwait can the armed forces. Few, outnumbers of military, would countenance the idea of Kuwaitis actually having to fight, even fewer that Kuwaitis should go out and ernment cannot afford to continue paying salaries and subsidies to all its citizens is met with blank incompre-

This apparent indolence has deep roots. In the 1950s and early 1960s Kuwait was the first and most conspicuous of the Gulf states to flaunt its oil wealth before are recovering, and the stock an envious world. Old photographs show Kuwaiti families in shiny Cadillacs enjoying the good life at drive in cinemas in the desert. The age of opulence had arrived. Oil money bought anything and everything. Armed with that belief, and encouraged by an indulgent state, "security". There is nothing Kuwaitis unwittingly took to heart Hilaire Belloc's dictum "Tis the duty of the wealthy

man to give employment to

the artisan".

Underneath the suave exterior the results of taking Belloc too literally are now becoming painfully clear. The sap is draining from the national fibre. Like its oilrich Gulf neighbours, Kuwait, in the words of a US-educated Kuwaiti banker, "is a society of takers", a nation of "couch potatoes" where 93 per cent of the working population draw monthly salaries from the state in the sure knowledge

that the constitution entitles

For 40 years Kuwaitia have sat back and snapped their fingers at the foreign worker. The government has paid the people's salaries, bailed them out when they lost money, and dipped into two-thirds of its reserves to help deliver them from Iraqi occupation.

Even then, the state's indulgence did not stop. Far from pulling itself and the country up by its bootstraps, the government buckled to public demands for more handouts. It sanctioned a 25 per cent across-the-board increase for all Kuwaitis employed in the public sector, and at the initiative of the Amir himself cancelled all its citizens' outstanding bills for electricity and water supply. Today, the nation's state

up by Professor Rasha Al-Sabah, a niece of Kuwait's Amir Shelkh Jaber Al-Ahmad Al-Sabah and under-secretary at the ministry of higher education, who says that Kuwaitis have grown up convinced the state exists to look after them for life. Meantime, more babies are being born. For the last five years Kuwait's national population - some 720,000, of whom 60 per cent are aged

of health is bluntly summed

est rates in the world. With the state already sinking 84 per cent of its annual budget into salaries and subsidies, this year's to \$6bn are badly needed to

Anomalies in the

government's figures of

public finance distort the

state's cash-flow position.

Some positive Items are

omitted. These include,

the Kuwait Investment

these is a closely-guarded

understood to have been

rebuilt to more than \$45bn

since the 1990-91 Gulf war.

Second, up to the middle of last month, the KIA had

government's privatisation

programme - \$1.70n to its

holdings in 17 companies.

The KIA has yet to sell its

holdings in another 26

loan. This will reduce

to just \$156m of US

credit agency loans.

managing director, Ali

Rashaid Al-Bader, All

external debts will

2001.

June.

have been repaid by

A fourth factor in the

government's favour is that

oil revenues for 1995-96 and

1996-97 are predicated on a

windfall off revenues profits

comfort" worth some \$3.8bn

for the 12 months to last

Fifth, official revenue

figures also omit dividends

paid to the state by Kuwait

Petroleum Corporation. In

\$2.4bp, more than twice the

1995, these amounted to

price of \$13 a barrel, so

are providing another

statistical "cushion of

assets from the sale of state

Third, by the end of this

year it will have paid off all

of the 1991 \$5.5bn sovereign

the country's external debt

Export-Import Bank loans

and \$571m of other export

according to KIA's ebullient

also added - under the

as assets managed by

firstly, the country's

secret, but they are

under 21 - has been increas-

ing at an average 3.7 per

cent a year, among the high-

IRAQ ... 30 41 - 75 - 7<u>9</u> :80 No political parties are slowed, although informel groupings exist. The largest are a group of independents, many close to the ept members of the Al-Sabah, ruling family; and two Sunni fundamentalis groups (Islamic Constitutional Movement as the select. The Kuweit De Power is exercised by the Amir through a. is the largest secular group. There is also a ■ Løgal system which and many have strictly tribal ded by Amiri de

all that buoyant oil prices achieve is to prolong the mood of complacency. They do nothing to instil a willingness to work, or to inject life into a moribund private sec-

To ease economic "restructuring", government officials talk earnestly of "redeploying" Kuwaitis away from the public sector into private companies. They say the government will offer to pay 50 per cent of the Kuwaiti's salary as an incentive to private-sector companies if they would employ nationals rather than foreigners. But the more realistic Kuwaitis dismiss these statements as mere slogans. Sulaiman Mutawa, a man-

agement consultant and forwindfall oil revenues of \$5pn mer planning and informaminister. tion savs maintain the cash-flow. But "redeployment has never

according to the KIA. The

central bank and the Kuwait

worked except in economies which are expanding and with people who have skills". Neither condition applies to Kuwait's private sector, or to most of its citizens in public-sector jobs.

Nasser Al-Rodhan, the finance minister, recently broached the idea of lowering the tax rate on foreign minority partners of local companies. This was described as "an important step" on the way to attracting foreign investors.

The business community's reply is that for a step to be important the government would have to demonstrate serious intentions to overhaul the legal system to allow foreign investors a majority share of local companies. Private foreign investors would also want to employ the cheapest quali- until help arrives.

fied labour, who would certainly be foreigners. They would also want the right to own land, float shares on the local stock exchange, and bid for government contracts.

For all its inertia, Kuwait is arguably the most stable of the oil-rich Gulf states. But this is due to oil money and the presence of US troops more than anything Kuwait has done for itself. Money and friends do not

ensure Kuwait's defence. Western military analysts caution that Kuwait will have to work hard just to satisfy the limited goals of its defence programme by the target date of 2002. This assumes its armed forces can act as a tripwire, to hold up and damage a concerted Iraqi attack for 48 hours

"The west is not going to end of the Gulf war for more be happy having just sold Kuwait a lot of fancy equipment if the Kuwaitis are not ment and legislature. able or willing to use it," But if the government is

The subtle checks and balances of clan and tribe are the foundation on which Kuwaiti society is built. They help to bind the country, to preserve the appearance of unity within the ruling Al-Sabah family, and to smooth the working relationship between the government and the National Assembly. But fear of disturbing these checks and balances also make for indecision and immobility.

warned one senior diplomat.

Businessmen, bankers and diplomats all say the success of government-backed candibest opportunity since the the future."

co-operation and less confrontation between govern-

serious about social renewal and economic reform, it has to demonstrate a quality of leadership so far lacking. Failure, suggested one of Kuwait's leading economists. will mean that "in five to 10 years there will be in Kuwait a repeat of the social unrest that has plagued Bahrain for the last two years".

From past and present experience, the government will try to buy off the people - if it still has the money. If not, senior diplomats warn,~ predator neighbours would exploit the power vacuum and grab Kuwait's one real dates in last October's gen- asset - oil. "A case." eral elections provide the remarked one, "of back to

and the war is about them to the III The economy • by Robin Allen

Postponing the evil day

A fault-line is running through the country's economic structure

Economic analysts in Kuwait would have it that although the country owns 10 per cent of proven global oil reserves, it does not yet

possess an economy.

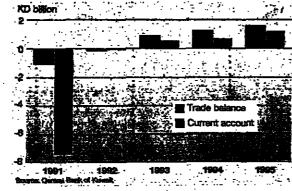
By this they mean that oil is the sole engine pulling Kuwait's train, with its 720,000 citizens living off oil revenues in the first-class compartments while being waited on by expatriates, who outnumber Kuwaitis almost two to one.

According to Jassem

Al-Saadoun, managing director of Al-Shall Economic Consultants, 93 per cent of Kuwaitis draw their salaries directly from the government and the remaining 7 per cent are indirectly connected to the state budget. "The state contributes no less than 75 per cent of GDP," he says, "We have," continues Mr Al-Saadoun, "no viable non-oil industrial. manufacturing or services sectors to yield hard currency or employ local manpower. Meanwhile, the private sector has between KD40bn and KD60bn invested overseas."

Such comments do not help the country's image and they anger government officials. In reply, and urged on by the international Monetary Fund and the World Bank, they insist the government has already started to cut the budget deficit, which it plans to eliminate by 2000, and that it intends to nursue a wholesale restructuring of the economy to wean Kuwaitis away from state bandouts and to create a self-supporting private

However, Kuwaiti bankers, businessmen and senior diplomats agree that deficit cuts so far are due to higher oil revenues this year rather than to cuts in expenditure. Bouyant oil prices, they say, are seducing the government into postponing the evil day when it has to tell an incredulous population that cradle to the grave welfare benefits are no longer



available; that the state can no longer afford to pay full monthly tax-free salaries of \$3,000 and upwards for part-time ministry jobs.

Finance ministry figures show that for the five fiscal years to June 30 1996, state revenues have totalled KD11.3bn against expenditure of KD22.7hr, leaving a deficit of KD11.4bn, or 142 per cent of the country's 1995-96 gross domestic product (GDP).

Since 1992-98, the oil industry has accounted for an average 86 per cent of annual budget revenues, and last year was responsible for 94 per cent of all Kuwait's exports. Non-oil exports have remained stagmant over the same five-year period. The projected deficit for the 1996-97 budget is

KD1.45bn, although this could well fall if oil prices stay high. This deficit, which includes payment of KD300m to the country's overseas assets through the Reserve Fund for Future Generations (RFFG), could easily be covered by income from overseas assets which, however, were never intended for this purpose Only about one sixth of

the accumulated deficit to 1995-96 has been spent on capital or development projects. The rest, 83.6 per cent, has been spent on salaries and subsidies for Kuwait's pampered citizens. Even Kuwait Petroleum Corporation (KPC), the flagship of Kuwait's oil wealth, "could run its marketing operations with six people and a fax machine", said a US-educated Kuwaiti banker. "Instead, it has a bureaucracy running into

Fund for Arab Economic Development also have deposits, cash balances and liquid securities amounting to some \$9bn. Lastly, according to senior diplomats, many ministries do not spend their annual budget allocations. However, even if all these mathematical plus-points are

added together, they cannot hide the fault-line that is running through the country's economic structure. Worse, economists say, "the incremental cash perpetuates the illusion of well-being and adds to the

national complacency".

There are also hidden cash debits, notably capital expenditure arising from the supplementary defence procurement budget. This amounts to KD3.5bn over a Authority (KIA). The total of 10-year period from 1992 to 2002. Second, the government does not release estimates for annual inflation, which economists put at 2 to 3 per cent, because state salaries are index-linked. Any official inflation would mean adding to the government's current expenditures beyond their present levels of some 50 per

cent of GDP. Economists and others say ministers' use of words such as "privatisation" and "economic restructuring" are empty slogans, and their statements "mere posturing". For their part, senior officials blame the outgoing National Assembly (parliament) for not having acted on draft proposals agreed by the government's Higher Committee for Economic and Financial Reform. At the heart of the

government's position is a determination not to be steamrollered into reforms. "Kuwait will not emulate privatisation plans followed by other countries," the finance minister, Nasser Al-Rodhan, was reported to have said at the end of October, except as they conformed to Kuwait's capacity and circumstances". The IMF and the World Bank, he added. "lack experience in Knwait, which is not a debtor country".

Sentember 15th 1996

Burgan Bank S.A.K.



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Senior Debt and Islamic Lease Facilities

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Gulf International Bank B.S.C.

J.P. Morgan Securities Ltd.

Arab Banking Corporation (B.S.C.) Arab Petroleum Investments Corporation (APICORP) Citibank International plc Gulf Investment Corporation G.S.C. National Bank of Kuwait S.A.K.

Senior Debt Underwritten by

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Arab Petroleum Investments Corporation (APICORP) The Chase Manhattan Bank The Commercial Bank of Knwait S.A.K.

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Bayerische Vereinsbank AG The Sumitomo Bank, Limited Banque Nationale de Paris Crédit Lyonnais The Sanwa Bank, Limited

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Debt Trustee

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Citicorp Trustee Company Limited

The Bank of Kuwait and The Middle East K.S.C. Bank of Bahrain and Kuwait B.S.C. CIBC Wood Gundy plc Dresdner Bank Luxembourg S.A. The Saudi British Bank

The Sakura Bank, Limited The Bank of Tokyo-Mitsubishi, Ltd. Commerzbank Aktiengesellschaft The Industrial Bank of Japan, Limited The Saudi Investment Bank Société Générale

Lead Managers

Berliner Bank Aktiengesellschaft The Dai-Ichi Kangyo Bank, Limited Emirates Bank International PJSC, Dubai

Managers Bank of Scotland

The Industrial Bank of Kuwait K.S.C. The Long-Term Credit Bank of Japan, Limited The Royal Bank of Scotland pic

Banca Commerciale Italiana, London Branch Export Development Corporation SEOULBANK

Kredietbank Project Finance Mediocredito Centrale S.p.A Union de Banques Arabes et Françaises – U.B.A.F.

Kuwait Real Estate Bank K.S.C.

Co-Managers Arab African International Bank, London Branch

Arab American Bank Banca Nazionale del Lavoro S.p.A./Efibanca S.p.A. Istituto Bancario San Paolo di Torino SPA

The Fuji Bank, Limited Landesbank Rheinland-Pfalz Girozentrale

> Islamic Tranche Lesson Kuwait Finance House K.S.C.

Account Bank Citibank, N.A.

Intercreditor Agent and Security Trustee National Bank of Kuwait S.A.K.



Foreign affairs and defence • by Robin Allen

Cultivating the art of national survival

if US military attention was diverted

Gone are the heady days when Kuwait trumpeted the cause of pan-Arab nationalism and lambasted the west same level of allied military for its perceived bias against support in 10 years, so its Arab countries. Kuwait's efforts are now directed at maintaining international principally US - backing to confront the military threat from Iraq. Its foreign policy can be summarised as cultivating the art of survival.

Drawing from 35 years of levels experience which includes • the bitter memories of the August 1990 invasion. Kuwait remains unimpressed by Iraq's recognition two years ago of Kuwait's full sovereignty.

"Kuwait has to be very careful," warned one senior diplomat. "On no less than three occasions before they invaded, the Iraqis indicated Kuwait should consider ceding Bubiyan and Warbah islands at the approach to Iraq's Shatt Al-Arab waterway. The Iraqi claw keeps probing. Even now, shootings and raids across the borders continue every month. Under these conditions Kuwait's security is inextricably bound up with

Another diplomat said: "Kuwait has no choice over its neighbours. There is a total block on any short-term improvement in relations with Iraq, although in the longer-term the government is very sensibly concerned that the west should forge a strategy that does more than simply react to Saddam Hussein's every

By contrast, Iran's policies, notably its military build-up, "worries Kuwait", diplomats say. "But Iran has to be dealt with by something closer to the European Union's 'critical dialogue' than by the US's approach of treating Iran as a pariah Although the dark clouds

hovering over the Amir's and its defence strategy take "Kuwait does not bave a personality obsession with Saddam Hussein. It is more ties; as much early warning fatalistic," said another as possible in order to mobisenior diplomat.

San Francisco regard the prospects of an earthquake. They know they are living on a fault-line," said Tarek Sultan, a Kuwaiti investment banker, "It does not stop them getting on with the business of living. We

Diplomats believe Kuwait US ground forces, General

a greater problem cord is well known and speaks for itself, and who is being contained, than before ing its real intentions. But they emphasise there are no encouraging Iraq to give up

its claim.

For the time being, however, the thrust of Kuwait's observed drily.

To be effective, Kuwait's pre-supmaintaining international support against Iraq at five

the US: • the five permanent members of the UN Security Council, with all of whom, bar China, it has defence agreements;

• subscribers to the Damascus Declaration, which groups Gulf countries plus Syria and Egypt; collective security arrangements between the Gulf states themselves; Kuwait's own resource

> There is a big gap between conceiving and implementing a defence programme'

The last three, senior Kuwaiti officials acknowledge, are for all practical purposes worthless without the first two.

For the time being at least, the US in particular, supported by Britain and France, have by their actions demonstrated they will not tolerate threats to Kuwait's territorial integrity. It remains, however, that Kuwait's problem could be greater if the US was called on to confront two military crises simultaneously, for example in the Gulf and the Korean penin-

Kuwait's defence policy

office in Bayan Palace have this into account. The policy Iraq written all over them, has three elements: good intelligence on Iraq's military intentions and capabili- month - who are paid less lise and call in help so as to "We look at Iraq in much deter an Iraqi strike; and, as the same way as people in a last resort, rapid deployment of its own forces to contain an Iraqi advance and buy time until help arrives. Its defence strategy is dictated as much by lack of space as any other factor.

Kuwait has to deploy its forces forward. The local commander of

This announcement appears as a matter of record only

Saudi Industrial Venture Capital Group

Arabian Chevron Petrochemical Company

have formed

Saudi Chevron Petrochemical Company

The undersigned acted as Financial Advisor to

Chevron Chemical Company in this transaction

البتك السعودى العالمي المحدود

Saudi International Bank

AL-BANK AL-SAUDI AL-ALAMI LIMITED

NEW YORK

August 1996

LONDON

TOKYO

Kuwait could face is better off now with a Sad-Robert Ivany, pointed out dam Husseln whose track-re- that Iraq, using its rail network, can even now mobilise in a matter of days north of the border. Analysts agree, the war when Iraq's rhetoric but say Iraq has limited abilwas more successful at hid- ity, in terms of logistics and rations, to project and sustain an attack. Others point hard guarantees that Kuwait out that feeding his troops will still be receiving the was never one of Saddam Hussein's priorities. "Either eat in Kuwait City or starve strategy has to include to death on the way there or on the way back" is much more Saddam Husein's way

forward mobility pre-supposes a high degree of fitness and training among Kuwait's 25,000-strong armed forces. "Six years ago. Kuwait did not have any armed forces to speak of," one military analyst said. In 1992, however, it embarked on a 10-year programme to develop a credible defence.

Results are mixed at the half-way stage. In terms of re-equipment, it is becoming impressive enough; in terms of numbers and training, considerably less so. "There is a big gap between conception on the one hand and implementation and fol-low-through," said one senior diplomat cautiously. In other words, too much bureaucracy, too many officers, not enough motivation and too few soldiers.

Lack of manpower and motivation, the curse of oilrich states, are abiding problems. The armed forces, who have to be Kuwaiti nationals, are not up to full strength. Kuwait has a pool of only some 100,000 of recruitable age to draw on. Diplomats say that unless the government cuts a deal with at least some of the 120,000 stateless "bidoon" who are deprived of citizenship - offering them nationality in return for a sustained period of loyal military service, for example - the manpower problem will persist.

The government imposes one-year conscription, but conscripts cannot learn to use Patriot missile systems or the computer technology in advanced battle tanks. Professional Kuwaiti soldiers are paid less than the police than the National Guard. A civilian bureaucrat can earn more, and lead a more comfortable life, than a soldier. Kuwait's strategy is aimed

at being able, by 2002, to "inflict considerable damage and hold up a concerted Iraqi attack for 48 hours", say western advisers. Their general, and generous, assessment is that Kuwait's political leaders will need to show more resolve if that target is to be achieved.





trate in support of their claims for franchise; Shis MP Hussein Al-Calat (below)



E Politics • by Robin Allen

w conciliation beckons

The newly-elected parliament is seen to be free of backward-looking obsessions

For the first time in more than 30 years, Kuwait has a National Assembly (parliament), elected for a four-year term last October, with a majority that may be more conciliatory than confrontational towards the govern-

Kuwait is the only Gulf country to have an elected legislature - a source of great pride among Kuwaitis; of frequent irritation to the present generation of the ruling Al-Sabah family; and bouts of apprehension from more authoritarian governments in neighbouring Bahrain and Saudi Arabia.

But parliamentary democracy is not a natural off-- who receive about KD800 a spring of traditional tribal structure, even though Kuwait's was as much a trading society as a desert Not surprisingly. Kuwait's democracy has a chequered history.

Parliament exists as a basic right under the 1962 constitution agreed between the-then fuler, Sheikh Abdullah Al-Salem Al-Sabah, and the dominant members of the merchant community. Sheikh Abdullah, widely regarded as a "wise, liberal and generous man", was the father of today's crown prince and prime minister, Sheikh Saad Al-Abdullah Al-Sabah, who is not considered

qualities, but whose style is gotten by the outside world, cent of the national popula- orities for economic restructcrucial when it comes to but remains vivid in the tion who can prove their citi- uring. forging a working relationship with the National that parliament was still in Assembly. It is an irony of history,

given the tension today on

the Iraq-Kuwait border, that an important factor in the birth of democracy in Kuwait was the military threat from Iraq. But this was not sufficient to prevent early strife between parliament and government, mainly because grey areas in the constitution were exploited by successive governments to reinforce their control over political activity, and to enlarge the powers of the state at the expense of the more liberal

On two occasions, in 1976 and 1986, parliament was dissolved amid mutual acrimony. In 1985, at a point when the Iran-Iraq war was redness when Iraq invaded coming perilously close to in August 1990. They were resignation of the justice minister, Sheikh Salman Al-Duaij Al-Sabah, because of his alleged dealings in the unofficial and illegal Souk Al-Manakh stock market which had crashed three

spirit of the constitution.

years before. The humiliation heaped on a member of the ruling family was too much for the Amir, Sheikh Jaber Al-Ahmad Al-Sabah, particularly since parliament's unruly behaviour coincided with Iranian-inspired instability inside Kuwait itself, including an attempted assassination of the Amir.

What is now generally for-

memories of Kuwaitis, is abeyance when Iraq invaded Kuwait on August 2 1990. In January of that year, the government had had to use tear-gas to put down street rioters demanding the recall of parliament.

After liberation, the Amir and the prime minister delayed 18 months before reluctantly succumbing to the combined pressures of the US administration and Kuwaiti voters to allow elections for a new parliament.

It did not help Kuwait's economic or political reconstruction that uppermost in the minds of MPs returned to parliament in the October 1992 elections, was the conviction that the government and ruling family were to blame for Kuwait's unprepa-Kuwait's affairs for all of the previous six years.

So the parliament elected last October is seen as the first to be free of the backward-looking obsessions which have dominated much of the Assembly's time for the last four years. This could provide the government with a golden chance to push through its muchvaunted programme of eco-

nomic reforms. But no one can be sure. Kuwait's democracy is not exactly in the western zenship back to 1920, plus a few thousand who have been naturalised since the last elections in 1992. Women are not entitled to vote, although they make up more than 50 per cent of the national population of some 720,000, and 32 per cent of

the national labour force. Optimists base their hopes on the fact that governmentbacked candidates won 30 of the 50 seats in the general elections held on October 7.

With political parties as such banned, the MPs represent five main trends: a large group of "independents", many of them close to the ruling family: the Islamic Constitutional Movement; arch-conservatives Shia members representing Kuwait's 30 per cent Shia population which receives much of its spiritual inspira-Kuwait's borders, a rebelalso held responsible for the tion from Iran; and more lib-lious Assembly forced the general mismanagement of eral-minded members of the Kuwait Democratic Forum.

> Half of the new parliament consists of re-elected MPs. Of the rest, 19 are first-time members and six have parliamentary experience from According to western dip-

lomats, many of the 30 or so "pro-government" members are "service MPs". whose primary concern is to ensure the government meets their constituents' immediate needs such as better roads and drainage, as well as to maintain existing mould. Franchise is cradle-to-the-grave welfare ment and parliament, or restricted to 107,000 males benefits, rather than to more time for MPs to argue aged over 21, some 15 per understand and support pri- among themselves.

Much of the Assembly's time so far has been spent in arguing who should be their Speaker - Ahmad Al-Saadoun, the incumbent and a long-time adversary of the government, and Jassem Al-Khorafi, a former finance minister and pro-government member, who lost the vote but is still challenging the re-election of Mr Al-Saa-

"The overriding priority said Suleiman now." Mutawa a former planning and information minister. "is for parliament to act on the proposals put by the Higher Committee for Economic and Financial Reform. But the initiative has to come from the government." MPs in the previous parliament had initiated studies on the privatisation of telecommunications. stopped it half-way through because the government said it wanted to study things 'globally'". A western diplomat said:

"The only near-certainty is that with the approach of the new year holidays, followed by Ramadan (the Islamic holy month of fasting in daylight hours), and the National Day holidays in February, activity in both the government and the National Assembly will be rather subdued for several months.'

All of which might tend towards a more passive relationship between govern-

Population and employment • by Robin Allen

their own country reminder that oil money and All nationals

expect to be paid, regardless of whether they actually work

At the outer security entrance to one government ministry stands a prefabri-cated hut of the kind used by contractors on building ites. Inside, barely visible through a thick haze of tobacco smoke, six blearyeyed youths pass the time of day gossiping and flipping through magazines.

For a few hours each norning they are in charge of vetting the credentials of anyone wanting to enter the ministry. They manage, however, to disguise this simple fact by ignoring visitors, disclaiming any knowledge of senior officials, and declining to dial ministry extension numbers. Responsibility for preparing the chit, without which a visitor cannot pass through to the next stage of security, is shunted from one youth to another.

They are the public image of a new generation of lives, she says. Both indi-Kuwaiti school-leavers, put viduals and the government into menial state jobs to sat- have to look at a new educaisfy ministerial assertions tional system and labour full year before the Iraqi that unemployment among structure which encourage invasion, when Kuwaitis nationals does not exist. self-reliance and promotes were an even smaller minor-Even by the standards of small private sector busi- ity - 27 per cent - in their this one ministry, which like its peers in other Gulf counfor its depth of talent, these to dismiss because they of the Kuwalti. index-linked salaries and six stand out as a grim perennially mask unpleasant. The total labour force of subsidies for its pampered

a cradle-to-the-grave welfare state system do not make for an educated people or a

healthy society.

The existence of this sad phenomenon is amplified by Professor Rasha Al-Sabah, a niece of Kuwait's Amir Sheikh Jaber Al-Ahmad Al-Sabah, and an extraordinarily gifted and vibrant academic-turned-administrathe ministry of higher educa-

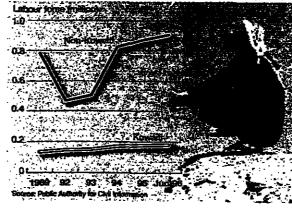
Professor Rasha, (she uses the title "professor" in preference to the more traditional "Sheikha"), is a British and US-educated historian and linguist with a doctorate from Yale in medieval Italian and the works of Dante, Petrarch and Boccac-

While staunchly emphasising the government's serious intentions to stop the rot, she makes no bones about the social and labour ills confronting Kuwait. "Individual Kuwaitis have

grown up convinced that the state exists to put on their nappies and to be their nanny for the rest of their viduals and the government nesses.'

Even official statistics, tries is not exactly known which many critics are quick at more than twice the rate

Outlook is good - for Kuwaitis



tling facts. They show, firstly, the actual and growing population imbalance between national and foreigner, second, the tiny numbers of Kuwaitis working in their own private sector; and third, the high percentage of Kuwaitis about to come onto the labour market to further increase the strains on the state budget.

Nationals made up less than 36 per cent of the total population of some 2m at the end of last June. The imbalance may be less serious now than in 1989, the last own country. But the expatriate population is growing

just under 1.1m consists

almost entirely of foreigners. Kuwaitis make up only 176,000, or 16.2 per cent, of the total. According to Al-Shall Economic Consultants, this is "the lowest ratio ever registered". More than 92 per cent of those who work do so for the government.

Although national unema mere 1.4 per cent, "under-employment" - like the youths at the ministry - is reckoned by economists to be as much as 55 per cent. About 44 per cent of Kuwaitis are aged under 14 and about 60 per cent under

21. But education will

the arrival each year of some 7,000 school-leavers and university graduates onto the labour market, are pushing this figure inexorably upwards.

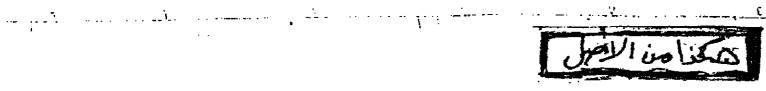
Annual allocations for the higher education ministry are only KD17.5m, less than one-third of the amounts allocated to each of the information ministry and the national guard. It is even less than the cabinet spends on its secretaries and support staff. But statistics do not show

the damage being inflicted on the moral fibre of the country by the presence of large numbers of unemployable Kuwaitis, dependent on the state for their survival. All nationals expect to be

paid monthly salaries by the state regardless of their qualifications, or even whether they work. The central bank, according to its governor, Sheikh Salem, "has to spend between nine ployment is officially put at and 26 months giving English courses to graduates before they are qualified to join the staff. Meantime, we have to pay them as though they were full staff mem-

Many of the graduates knocking at the doors of the central bank, according to receive only 8.36 per cent of Ahmad Al-Baghdadi, associthe government's 1996-97 ate professor of political scibudget, while the state ence at Kuwait University, already spends almost 84 per are the cream of the univercent of its annual budget on sity, a good example of some index-linked salaries and of the state's lopsided priori-

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■ Oil • by Robert Corzine

Petrochemicals • by Robert Corzine Expansion is the aim

Development of this market may prove useful if oil

Kuwait has been relatively slow off the mark, compared with other Gulf oil producers, to develop its petrochemical industry. But officials say they are keen to accelerate the pace of expansion, with work currently under way on a new prelimi-

nary strategic blueprint for

the sector. For most of its 33-year history, Kuwait's Petrochemi-Industries Company (PIC) has been mainly a manufacturer of relatively low-value products such as urea, ammonia and fertiliser for export. Its move upmarket to higher-value products is based on the \$2bn Equate ethylene glycol and polyethylene joint venture with Union Carbide of the US, now under construction, and a proposed \$1bnplus aromatics plant which

is under study. Officials say the strategic decision to move more Kuwait might in future deeply into petrochemicals tackle petrochemical profits in well with PIC's over- jects without a foreign partall desire to boost the value Ruwait's crude oil ture talks between PIC and

■ Banking • by Robin Allen

resources. The ethane gas Amoco, the big US oil group, that will feed Equate's on a \$1bn-plus aromatics 650,000-tonnes-a-year ethyl- scheme to manufacture parene cracker will come from axylene, benzene and toluthe group's liquefied petro- one were called off. At the leum gas plant at the nearby time, PIC executives said Mina Al-Ahmadi refinery other potential partners had complex.

Issa Al-Mazidi, the oil minister, notes that a deeper involvement in petrochemicals should also help protect Kuwait revenues should the price of crude oil fall.

The competitive advantage of Equate and the other petrochemical projects under study lies in the low cost base. "With olefins and aromatics setting a base we will be the cheapest producer in the Gulf," says Abdullatif Al Haddad, PIC's deputy chairman.

The main markets for the plant's output will be Asia and Europe. But PIC officials acknowledge that. unlike its crude oil and refined products businesses, Kuwait does not have any relevant commercial experience in selling such products in complex world markets.

Officials say they cannot rule out the possibility that ner. Last month, joint ven-

cials say work should proceed quickly if the project is given the go-ahead. There has been consider-

able progress this year on a smaller petrochemical scheme. Work on a \$160m come forward, although one polypropylene plant is said to be at the half-way stage. option was for Kuwait to with completion expected Officials say the nature of the petrochemical industry As with all major projects

in Kuwait, Equate will be seeking a single strategic judged not just on its financial performance but on whether it serves the wider national goal of providing additional jobs for Knwaitis. The process of "Kuwaitisa-tion" is well under way, says Mr Al-Haddad. At present a quarter of the Equate workforce are Kuwaiti nationals.

But finding suitable Kuwaitis has proved to be a problem, according to Mr Al-Haddad, "We just don't have enough Kuwaitis with that included six Kuwaiti the right qualifications." commercial banks, a But he said Union Carbide has agreed to a large-scale US banks and five regional training programme for banking and investment Kowaits

groups. It was the first Although PIC's emphasis major project in Kuwait to is on its domestic expansion, officials say they cannot rule out making some future aromatics plant to be built investments abroad. "I see alongside Equate awaits the no reason why not if it serves our strategic purfeasibility study. But offi- pose," said Mr Al-Haddad.

Scars of war remain

sought to raise production to

been largely repaired, but the sector still bears the scars of the ordeal, officials

The timing of his statement, just days after Iraq dropped all opposition to the

"Kuwait has to decide if it wants to continue to play with the big boys in Opec,"

small increase in the compaity. "But we will have to according to KPC executives. strategic importance to value to the crude oil.

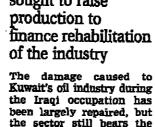
Golden anniverary: The Amir, Sheikh Jaber Al-Ahmad Al-Sabah, turns the ceremonial golden valve earlier this year to mark 50 years of Kuwaiti oil exports Kuwait's recent sale of its Kuwait." according to next step, whether we add interests in Santa Fe, the Seham Rezouki, KPC's manmajor capacity," said Mr North Sea oil explorer, for \$1.2bn was part of the Plans to build three Asian realignment of foreign oil refineries - in India, Thai- investments by KPC, and

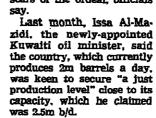
agreement. All would run on energy interests, say offi-Kuwaiti crude, a prerequi- cials. "The North Sea assets my's domestic refining capac- ments in the energy field, were non-core, and not of market share or by adding

aging director in charge of finance, administration and external relations.

But the Santa Fe sale does reflect a new focus. It requires that future investments abroad be linked directly to Kuwait's oil production, either by securing

Permission is being





"We believe Kuwait should have a just quota or a right to produce above the Opec ceiling," he said at the end of the group's Vienna meeting. The higher quota was needed because Kuwait still had to make large capital investments as part of the rehabilitation of its oil sec-

United Nations oil-for-food plan, was an indication of Kuwait's sensitivity to events in bigger, neighbouring oil producers.

says one observer of the industry. To do so it will have to expand its surplus capacity even further. Present plans call for capacity of around 3m b/d over the next five years or so. But it is also considering

whether to match the rise in crude capacity with an increase in refining capacity. Hani Hussein, head of marketing at Kuwait Petroleum Corporation (KPC), says the company is fully committed to "going full blast and building a very sophisticated and competitive refining operation that will offer superior, sustainable perfor-

The upgrading involves a



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land and Pakistan - are at does not herald a withdrawal

various stages of study or of Kuwait from overseas

look long and hard at the

site to new foreign invest-

Hussein.



KUWAIT FUND FOR ARAB ECONOMIC DEVELOPMENT

31/12/1961 Established:

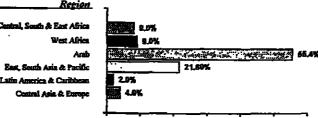
Purpose:

To assist Arab and other developing countries in developing their economies, particularly by providing them with loans and grants required to facilitate the implementation of their development programmes.

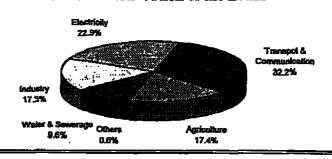
> (U.S. \$ Million) As of 30/11/1996

Statuary Capital	6600
Paid-up capital	6100
Reserves	3100
Loan Commitments	8 4 82
Total Disbursement of Loans	6042
Total Repayment of Loans	2590
Amount of Technical Assistance	144
Contributions to Development Institutions (Paid-up)	716
Number of Loans	503
Number of Beneficiary Countries (Loans)	83
Number of Technical Assistance	163
Number of Beneficiary Countries and Institutions (Technical Assistance)	74

Geographical Distribution of the Loans



10,00% 20,00% 30,00% 40,00% 50,00% 60,00% Sectoral Distribution of the Loans



report on recovery instruments amounted to selves have now accepted

Growth outside retail and import business has remained stubbornly slow

Kuwait's banking sector has prised a further 19 per cent. continued its post-Gulf war local and regional stability. However, balance sheet government, and to consumers for their personal needs, than it did in 1989 before the

Recovery outside the tradicredit rating agency - points out in its latest review of one local bank, management has suffered from "constant interference by shareholders", which prevents bank executives from making nec-

By the end of last September, commercial banks' total assets were still only 1 per cent above their pre-war level of seven years ago, and bank loans to private-sector customers only 60 per cent of their 1989 levels.

According to the central bank, total bank loans for private-sector capital investment has fallen by 17.3 per cent so far this year com-pared with 1995, and is less than half what it was in

The government is still by far the largest single bank customer. By the end of the third quarter this year. claims on the government in the form of the so-called Difficult Debt bonds, and other conventional, public debt KD4.7bm, or 42.3 per cent of total assets, compared with 10.8 per cent in 1989. Claims on the private sector made up another 30 per cent of banks' foreign assets com-

The degree of Kuwaitis' recovery, sustained by dependence on the govern-"lender of last resort", may growth relies even more from the 1982 crash of the heavily on lending to the unofficial, and officially illegal, stock market known as the Souk Al-manakh, is still

When the edifice of postoften, as Moody's - the family, with some \$92bn of debts. Many cheques cancelled each other out. But the net indebtedness of some \$22bn, and the collapse of the heart out of Kuwait's private sector economy.

> The effect of the Difficult Debts Settlement Programme (DDSP), started in July 1992, has been felt in two main areas, the central bank governor, says Sheikh Salem Al-Sabah.

> Firstly, the banking system "is now completely free of this problem". Banks have replaced their debts with government bonds which yield about 5.5 per cent. "What is more encouraging," Sheikh Salem said, "is that for the past 18 months most of the banks' income has been coming from business they generated themselves rather than from government bonds. Their net profitability has increased by almost 33 per cent, and is at its highest level since 1984."

Second, debtors them-

that settlement under the government's plan is their only option if they are not to be taken to court.

proceed on its own.

is such that they are not

relationship with a western

chemical company. "Union

Carbide, for example, is not

interested in aromatics,"

Future PIC projects will

probably be based on simi-

lar debt and equity financial

arrangements as those put

US Exim Bank failed to

reach an agreement, PIC

was able to raise more than

\$1bn through a consortium

Kuwaiti Islamic bank, three

be funded in such a way.

Further progress on the

completition of a detailed

Although talks with the

notes Mr Al-Haddad.

in place for Equate.

either settled in full at a dis- industrial venture. count or have met the government's terms to repay by instalments. The governrenewed US commitments to ment, the individual's ment is taking 741 debtors to be declining. But the fallout how it is treating the ture as large as Equate. remainder. The return of stability and

increase their capital, the tion aged under 20. Kuwait Finance House

(KFH), an Islamic bank, has successfully exploited a confidence that ensued, tore growing desire among nationals to invest their money according to Islamic principles. With only marginal increases in capital and assets, KFH emerged last year as the most successful bank in the Gulf in terms of return on equity.

National Bank of Kuwait (NBK), nearly three times as large as its nearest rival, Gulf Bank, in terms of assets, customer and capital base, continues to be the sole Kuwaiti bank of international stature. But Gulf Bank can claim a higher return on assets in the first half of this year. It is, however, NBK that

for many months led a solitary and ultimately successful campaign to put Kuwait and regional banks on the international banking map. Its leadership in edging out the US's Export-Import Bank

syndicated loan to build the Equate petrochemical complex was an example of what Gulf banks can do to exploit Since last year, 83 per cent regional capital markets for banks' total assets, while of the 10,423 debtors have a self-sustaining regional

There have been other syndicated loans to finance Gulf countries' oil and gasbased industries, but none court, but is vague about led by a local bank for a ven-In the end, Kuwaiti and

Gulf banks' total direct and a measure of confidence has indirect exposure totalled persuaded all banks to nearly \$2bn NBK, joined by local banks, arranged a furbetter to compete for a slice ther \$150m of working capidated cheques collapsed it of the retail business, partic- tal finance. In addition, NBK tional retail and import busi- left. Kuwaitis, including ularly for new teenage and the Gulf Investment ness remains slow. Too some members of the ruling depositors among the 60 per Corporation group undercent of the national popula- wrote \$540m of political risk insurance for the stake held by Union Carbide.

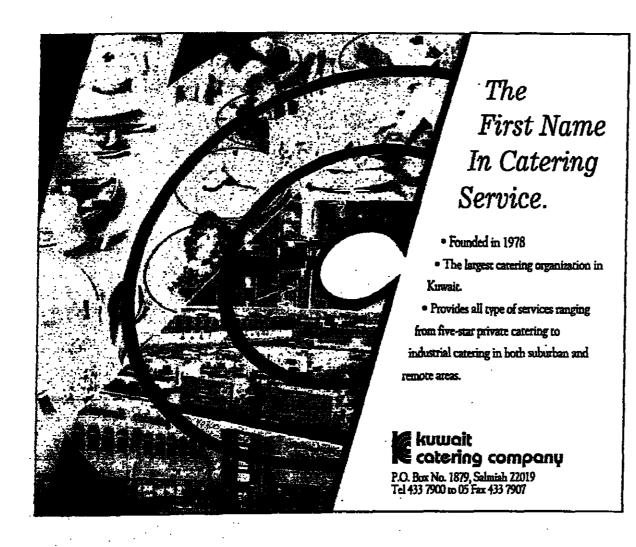
The syndication demon strated that Arab regional banks could work together to raise both Islamic and conventional finance for Gulf industry. "This where the future is for Gulf regional banking, in non-recourse project finance rather than equity finance," said one senior banker. "On a green field pre-construction project it is very difficult to sell equity finance. But the economics of the project have to stand up. Project finance is even more applicable for utility and other state infrastructure projects

difficult to raise equity." So far, however, NBK's role in Equate has not been followed up, and Kuwait's banks have yet to demonstrate they can establish and sustain a leading role in the development of regional cap-

ital markets.

where uncertainties over

product pricing make it very



Fall in Treasuries drags down Europe

GOVERNMENT BONDS

By Lisa Bransten in New York and Samer Iskandar and Richard Adams in

yesterday, sparked by overnight selling on Asian and European markets, and questioned whether "irratiodragged most European markets down in their wake. The vield on the bench-

mark 30-year Treasury was

sent up nearly 13 basis points and past the 6.6 per cent level. Near midday in New York, the long bond was 1½ lower at 98% to yield 6.603 per cent

maturity spectrum the twoyear note was down & at 9914 yielding 5.777 per cent. The March 30-year bond future fell 14 at 1134.

amount of corporate debt issued in recent sessions had combined with the comments from Mr Alan Greenspan, the chairman of the US Federal Reserve, to provide US Treasury prices tumbled investors with an excuse to

> Last week, Mr Greenspan nal exuberance" had unduly escalated asset values - a comment that was interpreted as a sign that he was concerned about soaring US financial markets.

strategist at Paribas Capital Markets in New York, cited a report in the Wall Street while at the short end of the Journal that questioned whether the Japanese would continue to support the US bond market with large purchases as another cause for

He said he had seen aggressive hedge fund selling and had heard about more selling from other deal-

Mr William Shea, senior vice-president in fixed-in- from Japan into overseas come at Nikko Securities, said worries that Japanese buying would slow down simply gave investors an excuse to get out of long positions.

"When there is fear in the

market, everything gets magnified," he said. "I think there is still a big commit-Mr Richard Gilhooly, a ment by the Far East to Y130.2bn, compared with increased optimism over the on Liffe's APT electronic buy." senior economist at Nomura in London, agreed. "We saw some decent buying of trea-

suries by Japanese investors", she said. "Traders

seized the opportunity to

Y32.8bn in September. Most European 10-year benchmark bonds fell yesterday, in the wake of Treasuries, by between 1/4 and a full percentage point.
Liffe's March long gilt

future settled at 1094,

IN US DOLLARS
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(B Rheinland-Platz())

Crédit Local de France

New international bond issues

since June 1995. They also increased their net pur-

Mr Keith Edmonds, senior

analyst at IBJ International

in London, pointed out that

although Japanese institu-

diminishing from their

Japanese investors bought

recent peaks.

Mr Kevin Adams, a gilts strategist at BZW in London, said that only two events were likely to raise gilts out tions were not selling for- of their current trading

eign bonds, capital flows range. The first was the possibilmarkets were nonetheless ity of buying by UK investment funds reinvesting profits from the equities market. "Into the year-end, we know Y1.674bn of foreign bonds in the liquid positions of UK October, the largest amount funds are healthy, and they bought in a single month won't want to hold cash on balance," Mr Adams said. The other possibility is

> prospects for European monetary union pushes up the bond prices of other EU countries. "We may be wake," Mr Adams said.

However, analysts are pespects for the convergence Emu.

process which had been driving the yields of Europe's high-yielding bonds down towards those of German hrmds

Mr David Brown, chief Ruropean economist at Bear Stearns, pointed out "increasing reluctance by hard core Europe to include italy in economic and monetary union".

Liffe's December future on 10-year Italian BTPs fell 0.68 to settle at 127.80, before reaching an intraday low of chases of UK gilts to that gilts could be boosted if 127.36 in after-hours trading

> Ms Collins at Nomura said the markets were "now on hold until the weekend". dragged along in their when EU finance ministers. are expected to discuss the so-called stability pact for countries participating in

Argentina acts to broaden its investor base

By David Pilling

flurry of paper, including its first international offer of peso-denominated debt and a \$500m domestic auction of two-year treasury notes.

The two issues, which came in addition to a DM1bn eurobond placement on Tuesday, were aimed to broaden Argentina's investor base, and to take advanfinance 1997 requirements,

estimated officially at \$14bn. The \$250m international oeso offering was led by Goldman Sachs, which bought the whole deal. It was described as innovative by traders, who said it would help underline market confidence in Argentina's fixed exchange rate. The offering carried a fixed coupon of 8.75 per cent, with interest to be paid every six months.

The issue was definitely a success and the tight spread shows people are not worried about convertibility," said Ms Ingrid Iversen, debt strategist at UBS. Convertibility is the currency board system, in place since 1991. which fixes the peso at parity with the dollar. The economy ministry

said the euro-peso issue was part of the government's strategy of gradually developing a peso yield curve, which can be used as a reference point for the private sector". Government officials said Argentina intended to build a peso yield curve up to 10 years. "They need to have a cou-

ple more issues, taken up by the big American and European banks, before we can say there's a sense of confi-

Mr Jerome Booth of ANZ Bank in London. "But as time goes on people see less Argentina this week issued a and less risk of a change in economic policy." Because peso paper is

rated investment grade, the issue was available to institutions that cannot normally buy Argentine notes. "It's a weird concept, but there are people who can buy peso paper who can't buy dollar paper," said Ms Iversen. "Over time, it is something tage of liquidity to pre- Argentina might use to enlarge its investor base." The economic team also

made progress in deepening domestic capital markets with its first auction of Bontes, two-year dollardenominated bonds. The \$502.4m auction was sub-scribed nearly four times and set a coupon of 8 per cent against expectations of 7.75-8.5 per cent.

Many private economists believe Argentina's financing needs could rise from the official estimate of \$14bn to \$16bn next year, particularly if its purse strings are relaxed in the run-up to October's mid-term congressional elections. But Mr. Peter West, economic adviser to WestMerchant Capital Markets, is among the majority who believe this should be manageable.

"While current conditions persist, the country will not have undue difficulty in covering its budget deficit and refinancing the large amounts of maturities coming due in 1997," he said Mr Miguel Kiguel,- under-

secretary of finance, said the average maturity of debt issued in 1996 had been eight years, double that of the previous year, and the trend of lengthening out maturities dence in peso paper," said would continue.

Vote of confidence for Crédit Local de France

INTERNATIONAL BONDS By Conner Middelmann

A FFr3bn issue by Crédit Local de France, the French bank specialising in public sector borrowing, was a highlight in dealings on the

euromarkets yesterday. The eight-year deal was also reported good sales of boosted when a non-French investor switched FFr1bn out of a large position in French government bonds. Société Générale, the lead manager, said the investor was attracted by "paper with a good rating and a yield in the high teens".

In addition, the syndicate official reported strong sales to French retail and institutional investors, as well as other European institutions, Hoare Govett, joint book-adding that Société Générale runner with DKB Internahad sold 70 per cent of its

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

allotment. The yield spread over French government paper widened slightly from its launch spread of 17 basis points to 19 points.

Moody's Investors Service reduced Crédit Local's triple-A rating by one notch earlier this year. However, a dealer at another house, who the bonds, said investors' fears have abated and Crédit Local was "seen as an

improving credit". Germany's Landesbank Rheinland-Pfalz issued \$200m of four-year bonds aimed at European retail investors. "Investment flows have slowed lately, but we expect them to continue and to revive in the new year," said an official at ABN Amro

The bonds were priced to yield 10 basis points over Treasuries, the same as the borrower's last four-year offering in late October which now trades at 10 basis points though Treasuries. The spread had widened slightly to 11 basis points by the end of the session.

The dollar sector saw a

novel structure: \$100m of step-up, perpetual, non-cumulative, floating-rate preference shares for BPI Capital Finance, an offshoot of Banco Portugues de Investimento. According to lead manager Union Bank of Switzerland, this is the first preference share issue in the eurobond market involving a call and step-up option: the coupon steps up to 265 basis points over Libor from 115 points if the bonds are not called after five years.

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

ence shares last week which dollar sector with a \$478.8m manufactured housing are callable after seven years, but do not include a step-up option. A syndicate official at UBS said the deal saw good demand from institutional investors "who are

BPI issued straight prefer- Master Trust came to the products, which include still hungry for high-yielding

Green Tree Receivables

0.64 0.89 0.85 1.08 1.11 1.34 0.85 1.11

Est. vol Open Int.

Jun

global asset-backed transaction, its first with a Euro- reational vehicles and pean listing. Some 70 per cent of the deal was placed in the US, lead manager Merrill Lynch said.

floorplan receivables from larly structured deal a year dealers selling Green Tree's ago.

(h) 102.00 Jan 2007 2.00

marine products. The bonds pay a coupon of 8 basis points over Libor.

3bn 5.375 99.35R Jan 2004 0.30R +170) Société Générale

exactly half the margin The bonds are backed by Green Tree paid on a simi-

such as mobile homes - rec-

e Indices Calits	Wed Dec 11	Day's change %	Tue Dec 10	Accrued interest	xti adj. ytd						m coupor Dec 10				
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6.3 6.5	7 <u>- 11011</u>	Open	•	-	High	Low	Est. voi	Open in
0.0	Dec	110-17	109-31	-0-28	110-17	109-23	4866	9774
	Mar	109-28	109-09	-0-28	109-28	109-02	63593	133808
	■ LON	G GILT FUT	URES OP	TONS (LIF	FE) 650,00	10 64ths o	100%	
	Strike			ــــ عل			PUTS -	***********
	Price	Jan		Mar J	Lun Ja		Mer	الايال
	109	0-47			11 0-2			2-37
	110	0-19			47 1-0			3-09
	111	0-06 total, Calts 12			24 1-5			3-50
ol. Open int	Ecu Ecu	BOND FUT	URES (MA	NF) ECU1	00,000			
4 107,462		Open	Sett price	Change	High	Low	Est. vol.	Open in
8 99,252	Dec	95.58	95.36	-0.42	95.68	95.10	1,457	5.173
8,692	Mar	95.16	94.96	-0.40	95.24	94.86	B05	2.808
Mar	US EUST	REASURY E	OND FUT	URES (CE	m) \$100,00	00 32nds (x 100%	
0.46 0.71		Open	Latest	Change	High	Low	Est. vol.	Open Int
1.07	Dec	114-19	113-14	1-09	114-21	113-14	17.177	84.254
1.54	Mar	114-11		-1-11			227,828	
	Jun	113-10	113-04	-0-24	113-15		498	14,817
142,669.								-
	Japa	n.						
s of 100%		E) Y100m 10			GOVT. E	OND FUT	TURES	
o Open int	-	Open	Close	Change	High	Low	Est. vol	Open int
8 224553	Mar	125.25	-	-	125.25	124.91	3324	n/s
86	Jun	123.76	-	-	123.78	123,55	1138	n/a
-	. OFFE #	Jures são tra	ded on APT	. All Open i	raterest figs.	are for pre	vicus day.	

Jun	89.30	39,	37	-0.84	, ,	NI.SU	28	.au 101 8	ii.		FFE tu	LT05 6	ies tra	det or	APT. All Open interest f	igs. an	e for pro	wique da	y	-
UK C	ilts i	PRIC	ES																	
		_1	NeM			. 52	eeck		_,	feki			_524	mark_		Y	iekt_		. 59	wak
	Hotes	int	Red	Pricer S	+0-	Hgh	LOW	Motes	ht	Red	Price £	+4-	High	Low	Motes	(ii)	(2) Pd	M 2 + 6	- Hgb	Lite
	s esp to Phot Y	-		_				Trees 7120c 2008##	7.55	7.59	99.5	-8	101翌	948						
Trace 13 LDC		13.15	6.01	1004	4-		100,5		7.66	7.91	1007	-33	1034	36.1	45ac 98#(135.6)	<u>(150</u>	237	13段	- 1143	1112
Each 101 ₂ 0; 1		10.42 6.97	6.18	100%	7		100, <u>}</u> 100\}	Troop 8ct 2002-611	7.57	7.51	10121	+2	10413	874	21 ₂ 0c '01	275 295		184 <u>18</u> - 18073 -	· 1865 - 1827	
Trees Griv Type Trees 8-legge 1:		8.61	631 633	10143		107级 107登	1015	Trees 11 Lpc 2003-7	9.74	7.47	1392	-2			4-nc 74#1356	302				
Gueta 15pc 194	#/ 	14.00	6.46	107.5	7		10213	-	1.00	7.63	108.				A State of Add or Address and	3.17		907.	4 1개 基 1数	
Econ 9 Loc 19		B.64	6.54	103.4	-7.		1004		8.17	7.66	110.5	-13			2 ¹ 200 '09	3.27	3.51 1	71층 -	ā inā	1614
Treat 74 pt 1		7.19	6.60	10013	-1.	10933	180%		7.80	7.70	102.1	-14 -15		961)	795 11	3.33		76 <u>3</u> 1 -	1 179日	
Trees 151200		13.54	6.79	11412	-1	122%	11413	Trace 6 1/4cm 2010##	7.16	7.75	872			81.5	- 20	3.39 3.44			· 148	
Each 120c 198		10.98	6.87	109,	-7	1147	109				-	_			21 ₂ 0c 15	157			를 157% 김 151%	
Trans 91 ₂₀₀ 1		906	6.90	105	-4	1084	97][Cover Signs (un 2011 ##	8.13	7.74	1101	-10	1135	100%	21-pc 241167.7)	3.50			4 126 <u>6</u>	
Trade Filip Rate				100/14	+		997 <u>.</u> 1169								4406 30井((英1)	350			Z 124A	
Each 12 ¹ 4pt; 1 Trees 10 ¹ 20c;		11.02 9.73	6.82 6.91	1114 10733	-4	116弘 112品	107								Prospective real redem			-		
Trous Sec 192		8.13	6.55	974	7	994	86								10% and (2) 5%, (c) Fig.					
Conversion 10		9.45	7.01	10913		1124	1075								indexing (ie 8 months pr					
Corny Roc 2006		8.53	7.06	10543	-2	1088	10313	Over Pillages Young							reflect rebesing of RPI	to 10	O in Feb	NULTY 19	87. Com	wernion
Tenna 1300 20		11.01	7.17	1163		1243	1171	Total Spr. 2012##	\$ 000	7,34	177,2	-14	114,2	_	factor 3.945. (P) for Ma	rch 19	9 0 151.	s and for	October	1998:
Trees 1400 19	Si-1	12.74	6.71	1097	- <u>î</u>	117人	105%	Trees 51 ₂₈ c 2005-12‡‡	6.66	7.48	823		Hà	754	153.8.					
Trees 8pc 200	O##	7.77	7 13	10547	- 1	1057	1012	Trees &pc 2012##	7.83	7.75	102,	-14	10513	951						
Treas Filip Rate		5.89		100/		100	991	Trees 73-oc 2012-15##	7 72	7.75	10011	-3	103&	3313						
Trees 10pc 20		9.11	7,24	10812	갶	114	100E	Treas Boc 2015##	7.90	7.73	10213		1062	957)	Other Fixed In	tere	xst			
Teest 7pc 200	T#	7.06	7.23	85 <u>33</u>	-19	161人	9812	Treat 84pc 2017##	7.97	7.79	1001	_	11312	1025	-					
								Esch 12nc 2013-17	6.45		14264	_	14/3	130H		Y	1		921	vént _
										7.73			_		Notes:	ĸ.		ica £ + ar	- Hein	Low
								Trans April 2021#	7.77	1.12	10253	-15	1005	25						
															Prima Dev 10 ¹ -pc 2009 Brann 11 ¹ 200 2012	705 8'88	7.92 8.35 1		1 1204	
Place by Pillings Trace 7nd 200		7.10	7.29	9871	-13	998	986								Entered Cato 8720c 70	8104 ATIN			+1 129½ 105¼	11만년 105년
Trees 94-55 20		8.61	741	11073	-2	1145	1007								Dec Cap 1995	8.06	Ξ'	104	1034; 104	104
Trace Stor 200		7.77	7.40	103	-17	10513	8973								139¢ W-2	11,72	- 1	103 _	_ 110%	110%
Treats 10pc 201	D\$	AB3	7.48	113%	-54	1173	106'2	Underland	7.86	-	5033	+3,	5143	207		10.04			2 1361	129
Trans 11 200 2		9.98	7.28	1152		1217	114.6	Corgois Apr		-		-		4973	Liverpool 31/200 knad.	8.54	-	41회 _	_ 42	3712
Funding 312pc		4.19	9.25	83)[-4	85/4	76 k	Mate from 3 ₁ 56cts	7.85	-	443	-13	463		LCC 3pc 20 At	£57		_\$5 _	36	331 ²
Commenton 912	oc 2004	8.51	7.52	11134	- 4	114,3	t07[3	Canv 312pc '61 Att	5.54	-	625		83製	58.	Manchester 11 2pc 2007	83 1	8.20 1	23 ¹ 2 i	1242	117

MAL SPA	NISH B		RES (MEFF))											
Open	Sett p	rice Change	High	LOw	Est. vol.	Open int.									
111.46				111,20	96,838		FT/ISMA INTERNAT	TION.	AL B	OND	SERVICE				
111.07	110.9	91 -0.55	111.18	110,74	19,283	38,994					***************************************			_	
MAL UK 6		TURES (LIF		30 92mds a	4 100%	•				ere is an : Chg Yleid	dequate secondary market. Latest pri		Offer (
Open		rice Change		Low	Est. vol	Open int.	U.S. DOLLAR STRAIGHTS				Spain 7 ¹ 4 03		1094		
110-17		-	110-17	109-23	4866	9774	Abbey Nati Treasury 6 ¹ 2 (3) 1000	100 ¹ 2	100%	J ₂ 63			1083		.50 Abbey Ned Tressury 8 03 £ 1000 101 101 1 ₀₁ 3 ₈ 7.78 .76 British Land 87 23 £ 150 963 983 983 58 9.45
109-28				109-02	63593	133808	ABN Armo Bank 74, 05	1025	102%	<u>−1</u> 2 6.95	World Bank 5% 03 3000	10212	1025	—§ 5	.43 Denmark 63, 98 2
GILT FUT	URES (OPTIONS (L	IFFE) £50,0	00 64the o	f 100%		Abican Dev Bk 73, 23 500 Alberta Province 75, 95 1000	1015	102 ¹ 8 103	-7 72 -1 597		10434	104%	- } 5	.15 Dents Finance 74 03 £ 900 964 065 4 780
		CALLS			PUTS -		Asian Dev Bank 64, 05	984		-1 ₆ 557 -1 ₆ 668	World Bank 7 ¹ g 05 3000	10/4	107%	- 5	91 BB B 03 E 1000 100 ¹ / ₈ 100 ¹ / ₈ -1 7.58 Glazz Wollcome 8 ³ / ₈ 05 E 500 104 ¹ / ₈ 104 ¹ / ₈ -1 8.08
Jan	Feb	Mar	Juan Ja	en Fet) Mer	Jun	Austrie 8 ¹ 2 00 400	106 ¹ 2	1064	4 6.14	SWISS FRANC STRAIGHTS				Hereon Treat 10 06 £
0-47	1-23		2-11 0-2				Bazies-Wuert L-Fin 8 8 00 1000		105 ¹ 2	-1 6.17		38 ¹ 2	3914		.11 HSBC Holdings 11.69 02 £ 153 115% 115% - 1 8.10
0-19 0-06	0-56 0-34		1-47 1-0 1-24 1-6				Bancoment 7 ¹ 4 04 1000 Bank Ned Gemeenten 7 93 1000	365g 1003a	87 ¹ 8 1025	- 10.18 - 1. 800			105% 102%	_	#6 Pay 10 ⁴ 2, 14 E
	_	427, Previous					Bayer Vargingbik 8 ¹ s 00 500	1054	10512	4 62	Denmark 4 ¹ 4 99 1000	1043	1045 ₈		.46 Jepan Dev Bk.7 00 2
							Belgkm 5 ¹ 2 03 1000	95%	95 ⁵ 8	-2 6.3	38 3½ 99 1000	102%	103	2	25 Ontario 11 - 01 F
							British Columbia 7%, 02 500 British Gas 0 21 1500		105 ³ 2	-1 ₂ 841 -1 ₂ 751		114%	1147 112		AS Powergen 87g 03 £
OND FUT	URES (MATIF) ECU	100,000				Cerecia 6 ³ 6 05	984	9912	- 1 6E	iceland 7% 00 100	714	715		7.45 Severn Trent 11 أو 99 \$ 150 109 أو 109 أو 7.45 7.45 45 Toligo Bac Power 11 01 \$ 150 112 112 أو 113 113
Open	Sett pri	ice Change	High	LOw	Est. vol.	Open int.	Chautra Konta Pin 572 98 500	98	98%	6.70	Inter Amer Dev 4% (3 600	105%	106	`a	78 TCN2 Fin 94, 02 N2\$ 75 10774, 10874 11, 7,48
95.58	95.3		95.68	95,10	1,457	5,173	Chira 6 ¹ 2 04 1000 Credit Fonciar 9 ¹ 2 99 300	97 105%	97 ¹ 2 107 ¹ 4	- 12 7.16 - 43 6.11		1127	113 ¹ 4 103 ¹ 2		39 World Bank 9 99 NZ\$ 250 10376 10474 7.26
95.16	94.9	6 -0.40	95.24	94,86	B05	2,808	UP 11 MK 24 20	-	1001	5.84	SNCF 7 04 450	1189	11914		68 Credit Local 6 01 FFr
							East Japan Railway 6% 04 600	9934	100	- <u>1</u> 2 6.66	Sweden 4% 08 900	1055			78 Sec de France 84, 22 FFr 3000 1237 ₂ 1244 ₄ -5 ₆ 8,78
							500 Sec to France 9 98		981 ₂ 103%	-3, 630 586		2838	29		18
EASURY	BOND F	UTURES (C	BT) \$100,0	00 32nds	of 100%		Ex-Im Bank Japan 8 02 500			-1 ₂ 6.40	World Bank 7 01	114-7	1145	3	30 FLOATING RATE NOTES bound Birl Offer Care.
Open	Lates	•		Low		Open Int.	Export Day Corp 9 ¹ 2 98	705 ¹ 2	1053	<u>-1</u> 598					
114-19	113-1 113-(17,177	84,254 384,386	Econ Capital 0 04	4023°	61% 102%	-12 641 -14 606		1113	1115		14 Abbay Nad Treasury -1: 99 1000 99.93 100.01 5.4375 10 Argentaria Global Fin 0.01 700 99.60 98.68 5.5000
114-11 113-10	113-0		114-13 113-15	113 <u>-01</u> 112 <u>-</u> 18	227,828 498	14,817	Federal Nati Mart 7.40 04 1600	105 ¹ 2		–3, 657			114½ 117½		20 Baritamarica 4 90 750 9090 10008 57900
							Ford Motor Credit 64, 98 1500		100 ¹ 2	6.00	Ex-len Bank Japan 43, 03 105000	1195	1135	- <u>1,</u> 2	23 Carecta -14,99 2000 99.70 99.78 5.2500
							General Miles 0 13	25 ¹ 4 95 ⁵ 2	25% 95%	-1° 838 -1° 838	Inter Arner Day 7 ⁴ , 00 30000	1197	120 ¹ e	,	28 ************************************
NAL LON	G TERM	A JAPANES	E GOVT. I	BOND FU	TURIES		Inter-Arner Day 6 ¹ s 06	9732	975	-¥ 6.81		1173			71 Canada Lipornais & 00 300 98.21 98.59 5.5750
Y100m 1							Inter-Amer Dev 7 ¹ 2 05	105 ¹ 2	105%	- <u>1</u> 661	Japan Day Sk 5 99	1104			Drescher Finance & 98 DM _ 1000 DX 08 100.05 3 1802
Ореп	Cilcon	e Change	High	Low	Est. vol	Open int.	Ind Finance 54; 99 500 Bay 6 03 2000		99 98%	- 12 6.44 - 12 6.44	Jacob Day Bk 622 (1) 1200(0)	129	1224	- 1	57 Fed Nat Most -1, 00 1000 98.80 98.96 5.3125 22 Finland -1, 98 1500 99.94 100.00 5.3750
125.25	-	•	125.25	124.91	3324	n/s	bely 6% 23 3500	957	984		SNOT 64; 00 30000 Spain 54; 02 125000	11772	117-3 1195 ₂		98 THE COURT 500 10211 70220 5.5489
123.76	.	-	123.78	123,55	1138	n/a	- Epon Dev BX 8/2 (7) 500	1074	10712		Sweden 49, 96 150000	104	104%	` 0	57 Mil Bank Inti 4, 99 500 100,42 190,51 5,7500
TO 100 T		APT. AL Oper	interest figs.	. are for pro	wicus day.	·	Koren Bac Power 6 ³ 2 03 1850 Messuehita Bac 7 ¹ 4 02 1000		98 ¹ 4	-1,690 -1,649	World Bank 54 02 250000	1173	117 ¹ 2	- 3 , 1.	79 May 1 98 Ecu 1500 100.40 100.45 5.5836 May 1 98 Ecu 1500 100.25 100.31 4.3125
							Ontario 73 03 3000	1045	104%	- 6.55	OTHER STRAIGHTS				## 198 Ecu
							Ontario 73, 02 2000		105 ¹ 2	—} ₂ 6.46	Gerdinance Lux 74; 03 LFr 4000		110	` &	00 Lloyde Bank Perp S 0.10 600 86.38 87.63 5.8295
							Oster Kontrollberik 8½ 01 200 Portugal 5¾ 03 1000			-1 ₂ 631 -1 ₂ 654	BB 7½ 05 LFr 3000	106	109	_	22 Mahayab & 05
_52 .ar- Hab	#### LOW		Motes (¥644 (1)	ME .W-	_52 week High Live	Quebac Hydro 94, 98 150	1057	106	-2 634 6.17	Rabobank Nadaski 8 ¹ 4 04 LFr 3000 Austin 6 ¹ 2 98 P	113 1054	114 105%		15 Nove Scotle 1, 98 500 99.99 100.07 5.8875 94 Ontario 0 99 2000 100.07 100.14 5.5000
				(4) (4)	<u> </u>	ingo CV-	Quebes Prov 9 98 200	103½		-1 ₄ 6.12	PTT Nederland 612 06 FI 1300	103		7 å	Portugal & 99 DM 2500 100 30 100 37 3 1675
-첫 101정 -첫 1034		leter-United 45ec 19811		50 237	11312	193. 1113.	SAS 10 99		1072	그 6.67 그 8.02	Bell Canada 10% 99 CS 150	1125	11314	- S	77 Cheebac Hydro 0 99 500 99.75 99.85 5.5825
+2 1041		45apc '98## 21 ₂ pc '01		75 330 '	18012 4	1897 1784	Spain 6/2 99 1500		1053 <u>.</u> 1013 <u>.</u>	—1 ₆ 5.99	British Columbia 7%, 03 CS 1250 Canada Mg & Heg 84, 99 CS 1000	1073	108 ¹ 8 -		
-1 125Å		21200 108 41400 104#	(78.6) 2 (135.6) 3.	95 337 T	180일 ~~ 117일 ~~	1822 1773	Sweden 6 ¹ 2 03 2000	101		-1 ₂ 640	EB 10 ¹ , 98 CS	107		-¥. 5. -¥. 4.	M. M
1086	_	2pc 16	<u>`695</u> 3	.17 3.45 1	1902 - 1	190、111点 1855 1764 180点 177至 119 112号 180点 178号	Terressee Valley 6 00	994		-¥ 6.16	Sec de France 9%, 99 CS 275	11112		4 5	Sweden - 201 2000 9995 10001 53750
-B 11293		2 ¹ 292 100			ירוים דעוויו	173& 161& 1798 166&	Tennesses Valley 67, 05	86 ₁ 2 83 ₁ 2	86 ₂ 7	—는 6.82 —는 6.28	KW let Fin 10 01 CS 400		1155.	-i e	22 United Kingdom -1 01 2000 99,77 99,92 5,5750
-l ₂ 104∰		2 ¹ 200 '13	(89.2) 3.	39 3.57 1	145,74 -12	148 1362	Toyota Mozor 5% 88	997		∸늘 528 -ት 581		1124 1095	113 1085		
-11 892		21 ₂ pc 15				157% 1454	United Kingdom 61, 01 2000	102 ¹ 8	102 ¹ / ₅	- 6.19	Ontento Hydro 10%, 99 CS 500	11212		ء ب د 4 ڪ	Come
-站 13组	100%	21go 74#			1734 - 14	1564 1365 1364 1361	United Kingdom 714 02 3000	105 ¹ 6		- 620	Oster Kontrollbank 10½ 99 CS _ 150	112	1124	\ 4.	
		44c 30#_	_(i35.1) 3.	50 163 7		1244 113	Walt Distray 5 ³ 1 01 1300 Work! Bank 8 ³ 1 05 1500	100		4 647	Quebec Hydro 7 04 CS 1000	1034	102 ¹ 2	-1 6	
	F	токресиче п	el redempto	an equal us	projected in	Matten of (1)				–1, 653 –1, 576	Quebec Prov 10 ¹ 2 98 CS 200 Council Europe 9 01 Ecs 1100	1104		- 1 ₂ 4	" GOO NAKOOMIA 712 DO
		10% and (2) \$ ndedno 6e 8				RPI base for madketed to			164	-,	Cadil Fonder 8% 04 East 1000	1115.			Per Grand Matropolitan 6/5 00 710 497 499 449 4894
_11 1141		wheel rebests	e al RPIta	100 in Feb	DILLERY 1987	Convention	DELISCHE MARK STRAIGHTS		_		Denmark 8 ¹ z 02 5zu	1134	114	i i	
-14 1143 H3	्राज्यक्ष व	actor 3945. (143. A	EPI for March	1 990: 151.	5 and for C	Ctober 1999:	Austria 6 ¹ 2 24 2000	95% 	957	-1 6.85	EC 6 00 Ess	104 ¹ 8	10412	4	99 Hong Land 4 Or 410 31.05 834, 94 -5.50 51 Land Secs B4, 02 C 84 94 95 62 Land Secs B4, 02 C 90 564 84 95 63 Land Secs B4, 02 C 90 564 84 95 64 Land R R 3 02 200 22 1084, 1074, 4047
-14 105H							Create Francis 7L 02	10478	104% 1001.	354 1 FM	East old Ser 101- AS Ser	1175	117%	ļ. 5.	14 Lastro 73, US 2 90 544 041 045
7 1013	A423						Denmark 64 98 2000	103%	100%	~a 0.000 3.49	Rento del Selet 10-4 86 Esti	1174	1054	4 4	60 MBL Ind Rn 3 02 2000 22 1083 1074 40.47
-1½ 106 <u>&</u>	953	Other Fi	xed into	rest			Dople Phance 63 03 1500	11.00	4003.	JL 574	I bellevi (Constitute D). At Care. Coren	4447		• -	
-14 11352							Deutche Bix Fin 7 ¹ 2 08 2000	109	1093	- 572	ADC 10 99 AS 100	107	107%	4 .	99 Ogden 6 02 85 38,077 933, 954, 422,04 Pennsol 43, 03 800 58,8097 114 115 45,37
14%			liste i	_ (indi o	des C	_52 week _ High Law	Deutsche Finance 5 ¹ 4 04 2500 EEC 6 ¹ 2 00 2900	400%	4DEL	1. 101	DD 71-00 60 · · · · · · · · · · · · · · · · ·	1		_	SELAX (2008) 272
-14 108#				- 494 1			BB 64, 00								
	Ā	uien Dev 104-pc Tuen 111 ₂ 90-20	2309 &/	1921 1922 1021 1939 1	118 -11 1776 -	1204, 171 <u>2</u> 129 ¹ 2, 119 ¹ 2	Finland 712 00 3000	1094	109%	427	R&I Bank 7 % 00 AS	1004	1025	2. 7	SERVICE 1/2 00 40000 1059.4 100/4 101/4 48.15
	k k	pieni Cap 8750;			ILD-3a	tible libb	haly 74, 98	1044,	10414	3.45	State Bk NSW 9 tiz A\$ 300	1073	108	. 7	30 Sept Allerson 71 479.0
		9ac Cap 1995. 18pc 17-2		-	194	104 104	LNS Bader-Whent 6½ 08 2250 Norway 5½ 98 1500	102	1024	- 5 ES	Sth Aust Court Fin 9 02 AS 150	108 ¹ -	1085	ei 7.	27 Suratomo Bank 3½ 04 300 3606.9 934, 944, 469.58 28 Sun Allamos 74 08.2 155 3.9 1147, 116 422.07 22 Transationals Hidge 5½ 09.2 250 1.05 575, 865, 414.48
								200					171764	_	

MI CROSS RATES

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SECRET RATES

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CURRENCIES AND MONEY

FINANCIAL TIMES THURSDAY DECEMBER 12 1996

Dollar falls amid asset market nervousness

MARKETS REPORT By Graham Bowley

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Secretary 18 1

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Argentina 30

to broaden

investor base

amid profit-taking and between the Treasury and renewed nervousness in the Bank of England. world asset markets about rates.

against both the D-Mark and by 50 basis points to 6 per yen as speculation resur- cent. faced that US interest rates equity prices.

Uncertainty about whether details of the proposed sta- sively. bility pact for the European single currency would be agreed at this weekend's the D-Mark in London at European Union Dublin DM2.5518. It ended slightly summit provided extra sup- higher against the dollar at port for the D-Mark

The German currency gained against most other per 11 European currencies, with the Italian lira moving back above its central rate in the exchange rate mechanism.

EXCHANGE CROSS RATES

Strike Price

Affect (right Bank (GB) 8.00 Affect Trust Bank 8.00

Bank of Berode

Barco Elbao Vizo

Bank of Cyprus Bank of Instand

But Bix of Mild East

OBTOMO SIMPLY & COLLEG & STO

Benk of Inda Bank of Scotland

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6.00

6.00 6.00

6.00

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Dynam Linuse 8.00
Exert Bank Liniard 7.00
Financial 5 Gen Bank 7.00
eFicient Flaming & Co5.00

Hongkong & Shaesthel 6.00
Julian Hodge Bank 9.00
Milespold Joseph & Sons 6.00
Unyde Bank 6.00
Midjend Bank 6.00

"Mount Credit Corp

Office Brothers

Association
" in administration

Girobank 6.00 Scottish Wildows Barris 6.00 TSB 8.00 White Barris A.0 Zarrich 6.00 United Barris 6.00 White Barris 6.00 United Barris 6.00 White Barris 6

Floyal Bit of Scotland 6.00

Singer & Friedlander 6.00

Singer & Friedlander 6.00

Scotlah Wildows Bunk 6.00

9675 9700 9725

Strike Price

9800 9825

The pound lost ground against the D-Mark as no immediate announcement foreign exchanges yesterday monthly monetary meeting

The Australian dollar fell the direction of US interest sharply after the Australian central bank surprised mar-The US currency fell kets by cutting interest rates

The New Zealand dollar might be raised soon, weakened as investors and prompting further big traders antcipated that the declines in US bond and country's new coallition government might begin cutting interest rates more aggres-

> The pound closed down more than 1 pfennig against

-- Latest---1.8580 1.6572 1.6548 1.6413 --- Prev. close ---1.6535 1.6526 1.6502

\$1.6557. The dollar finished in London more than a pfennig was made about interest down against the D-Mark at The dollar weakened on the rates following the regular DM1.5412. It finished at Y112.85 against the yen.

> ■ Calm was restored to world currency and asset markets earlier this week following last week's downward lurches.

But this was shattered again yesterday as investors once more began to speculate that the US authorities might be planning a preemptive rise in US interest

Last week's sharp falls were triggered when Mr Alan Greenspan, chairman of the US Federal Reserve, reduce what Mr Greenspan called "irrational exuberance" in financial markets.

"Mr Greenspan's comments continue to reverberate around the market," said Mr Paul Meggyesi, senior and, more importantly, US currency economist at Deut- retail sales figures.



This was in spite of ecoof the US Federal Reserve, nomic figures yesterday The debate over the future led traders to fear that the which showed a lower-than shape of the proposed Euro-Fed might raise rates to expected increase in core US producer prices last month. Ms Ros Lifton, international economist at HSBC Markets in London, said attention today would focus on US consumer price data

DOLLAR SPOT

Dec 11

"There is a lot of interest pean monetary union cor in the real activity indica- ued to rumble on yester tors given the market's ahead of this weeker belief that the US economy meeting of European Un is slowing," she said. A rise in US interest rates

to head off inflationary pressures in the US would tries will agree details of reverse some of the capital flows currently being used to finance large current account deficits in some countries, said Mr Meggyesi.

"Those currencies which - neth Clarke, the UK char are suffering are those that lor, decided to raise inte need to attract overseas capital. Anything that looks like yesterday with Mr E(disrupting that flow of capidisrupting that flow of capi- George, governor of tal is liable to put downward Bank of England. pressure on these currencies," he said.

IN OTHER CURRENCIES

Exach bp 45.0545 - 45.1148 27.2200 - 27.2400 hp 45.0545 - 45.1148 27.2200 - 27.2400 hrapary 284.170 - 284.412 159.050 - 159.050 izm 4668.00 - 4865.00 3000.00 - 3000.00 lowest 0.4861 - 0.4872 0.2297 - 0.3002 Potent 4.7140 - 4.7218 0.2480 - 2.8510 lowest 9168.15 - 9177.00 5338.00 - 5541.00 UAE 6.0787 - 6.0829 3.5725 - 3.6728

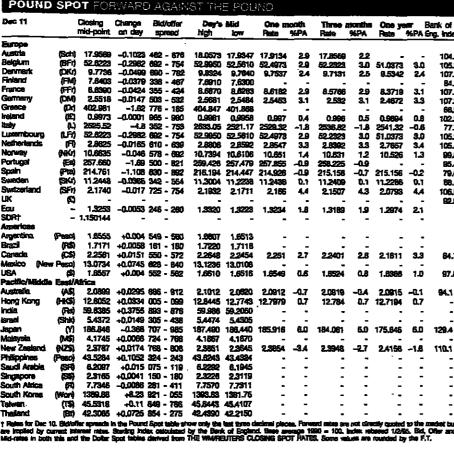
There is growing untainty about whether or proposed stability pact at

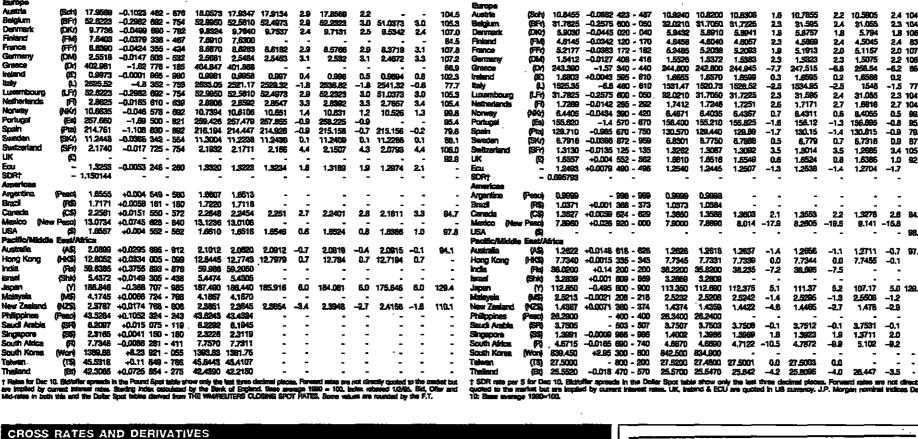
■ Analysts did not rule the possibility that Mr I rates following his mee

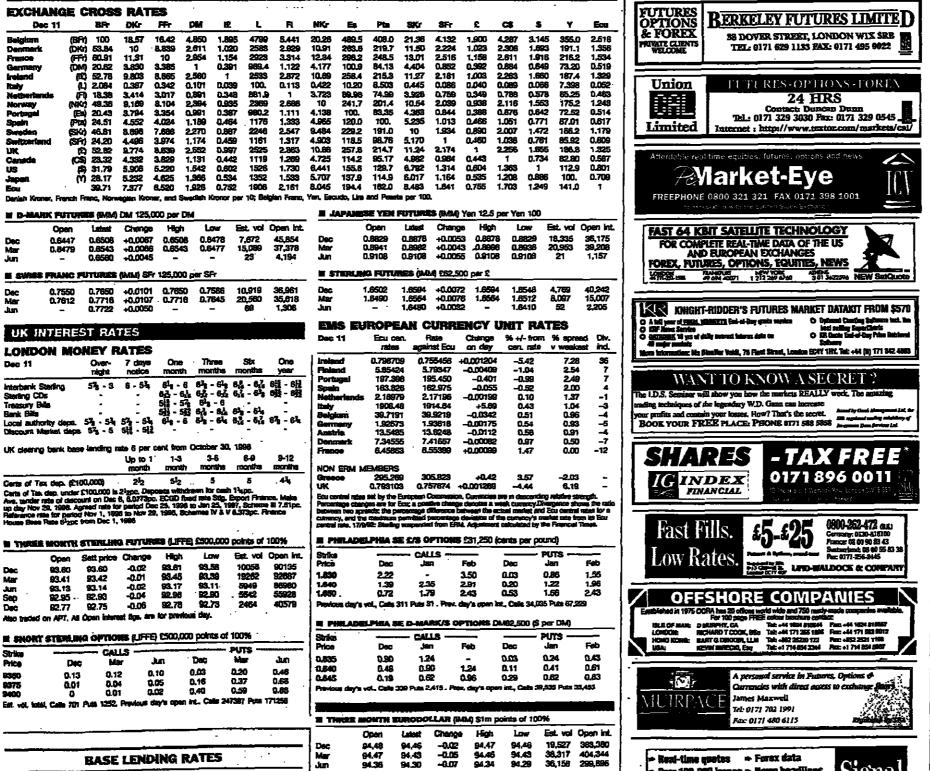
But the Bank signalled immediate change of ra said the market would have to wait until next for the next rise in ra

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Mar	96.55	96.5	54 -	0.02	96.55	96.51		
Jun 	96.50	96.5		-0.02	96.51	98.47	-,	
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Mar Jun	96.82 96.77	96.8 95.7		0.01 0.01	96.85 96.79	96,82 98,78	19211 31103	
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Mar	-	96,8		-	-	-	ă	1210
THREE	HONTH	EURO	LIRA F	UTURE	S (UFF	E)" L1000	m points o	of 100%
		Sett D	~					
	Open			nenge	High	Low	Est. vo	of Open int.
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Mar Jun	92.75 93.47 93.84	92.75 93.56 93.85	5 -4 5 -4	nange 0.02 0.02 0.04	92.79 69.54 93.88	92.70 93.45 93.62	13877 20793 6001	of Open int. 59883 8 94680 50250
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COMMODITIES NEWS DIGEST

COMMODITIES AND AGRICULTURE

was more than 100,000 tonnes of

is good of the Dutch to admit their

errors but we still do not have the

accurate statistics." He said he

would wait for the CBS to produce

those figures before making any

Mr Daamen said the process of

He said that in the past three

weeks the investigation into the

producing accurate statistics would

probably take another two weeks.

formal comment.

Dutch solve puzzle of the 'missing' copper

By Kenneth Gooding, Mining Correspondent

The Netherlands' Statistical Office yesterday admitted that its data on the flow of copper to and from Rotterdam was flawed.

Mr Jan Daamen, the official responsible for re-examining the statistics, said he was satisfied this solved the puzzle about "missing" stocks of the metal that had become one of the big talking

points in the metals industry. The uproar began on November 13 when the UK based World copper trader who Sumitomo says

Bureau of Metal Statistics, on cost it \$2.6bn by unauthorised tradwhich many analysts rely for their ing. raw material, suggested there might be substantial stocks of copper in Rotterdam not reported in any official statistics.

This idea found little support among traders and analysts but the bureau's remarks, coming in the wake of the Sumitomo copper trading scandal, caused a brief flurry in copper prices.

There was some speculation that

the stocks might have been built up by Mr Yasuo Hamanaka, the

The hureau last month said its studies of copper flows to and from the Netherlands for 1990-95 showed unreported stocks of more than 500,000 tonnes.

Mr Lloyd Davis, the general manager, said then it was unlikely the stockpile was that big but "we believe that this analysis points to potentially significant stocks of refined copper in the Netherlands not previously reported by the Bureau".

Mr Davis said yesterday that he data showed there had been a

was standing by that assertion and failure to distinguish between that at one time there probably copper imported into the Netherlands for domestic use and unreported stock in Rotterdam. "It copper passing through the country in transit.

In the time between 1990 and 1993 - before the borders between European Union countries were opened up - flows of copper through Rotterdam were not fully included in official statistics. After 1993, some copper registered as being for use within the Netherlands had, in fact, found its way into the wider European Union

barrels a day and has hov-

ered around 2.8m to 2.9m b/d

mark since then - it only

takes a small drop in con-

sumption to push the market

European consumers are

increasingly turning towards diesel cars and outside the

UK there is a significant

price inducement to do so.

Diesel cars already represent some 50 per cent of the mar-

ket in France and countries

Demand growth outside

small markets such as Portu-

gal and Turkey is expected

to be concentrated on diesel

in future. "There is little

prospect of gasoline demand

catching up with capacity,

Oil companies used to offload their surplus to the

US market, but flerce compe-

tition and an increase in

capacity has seen them

diverting exports to eastern

Europe and Russia. Those

regions are building their own refineries and demand

for gasoline imports will fall.

Analysts are looking for

oil companies to rationalise

production in Europe, partic-

ularly in the French market

where companies have been

discussing a restructuring

more expensive than gaso-

line refining and oil compa-

nies have been more reluc-

tant to install new plant.

plan with the government. Production of distillates is

out of balance.

such as Austria.

said Mr Skinner.

Challenge to NZ apple board fails

A determined bid by a New Zealand apple grower to break the country's marketing board monopoly on exporting fruit has failed. The New Zealand Apple and Pear Marketing Board has refused to allow the export of the l.5m apple crop from Applefields, a South Island grower.

The board's consent committee - which last year allowed Applefields to export thousands of cartons of apples on its own account - said the application was not in the interests of the country's other 1,600 growers and would have driven down returns for the entire industry. Applefields - which has been involved in a

long-running campaign against the board's "single desk selling" monopoly – had threatened to chop down all its trees if its application was rejected, putting 2,000 seasonal workers out of a job. Mr Tom Kain, Applefields managing director, said the company was now considering its future and that the board's decision was a "tragedy" for the

Mr John McCliskie, chairman of the Apple and Pear Board, said he would be sorry if Applefields carried out its threat to rip out its trees and sell the former orchards onthe outskirts of Christchurch City as small farms. He said that if the company decided to export through the board, no jobs would be lost. Current forecasts were for higher Terry Hall, Wellington

Mining investment to rise

Investment by the Australian mining industry is expected to rise strongly in 1996-97, to around A\$5.64bn (US\$4.52bn). But exploration expenditure within Australia is forecast to be flat, and the number of people employed directly in the industry is likely to decline, as more mining companies turn to contractors.

The annual survey by the Minerals Council of Australia, the industry body, found that net capital expenditure in 1995-96 rose by 12 per cent to just over A\$5hn following a 10 per cent rise in the previous year. In the immediate future, it expects a further substantial increase, with expenditure on mining assets reaching A\$4.47bn in 1996-97 and spending on smelting and

refining assets topping A\$1.17bn. Some of the projects scheduled for completion by end-1997 include the Cannington, Ernest Henry and Silver Swan mines, and the Mt Lyell redevelopment in Tasmania. But the MCA also cautioned that, while there are a

"substantial number" of large projects under consideration, "there is still considerable uncertainty concerning if and when these projects will be committed" Nikki Tait, Sudnet

NSW coal mine sold

JOTTER PAD

The game of Skill, Judgement and Nerve

CROSSWORD

No.9,249 Set by VIXEN

Kembla Coal & Coke, the Australian coalmining offshoot of the large RTZ-CRA resources group, has agreed to sell its Tahmoor mine in New South Wales, to Austral Coal, for an undisclosed sum. The Anglo-Australian mining group said last June it was putting KCC's two NSW mines up for auction, following several years of disappointing performance. The sale of the other mine, West Cliff, is under negotiation.

The year in which

backnotes (Spread 20

years) Yesterdays

• -

Jack

Iraq factor lifts | Competition weakens gasoline wheat prices

MARKETS REPORT By Laurie Morse in Chicago

Anticipation that Iraq would return to world wheat markets as part of the UN aidfor-oil programme helped support wheat futures prices

on the Chicago Board of Trade yesterday. Iraq's trade minister has said that Iraq hopes to import 1.2m metric tonnes of wheat during the first segment of the programme. which allows the country to buy \$1.3bn in food and medicine every six months, using

proceeds from oil sales. However, a grain trading expert said timing of the purchases, and the origin of the wheat was "purely swork" at the moment. Mr Robert Kohlmeyer, executive vice-president of Washington-based consultants World Perspectives, said it was highly unlikely Iraq would buy US wheat.

"The Australian Wheat Board has a long relationship with Iraq, and they have the wheat to sell," said Mr Kohlmeyer, Argentine wheat was also attractively priced, on international mar-The US Department of

COMMODITIES PRICES

LONDON METAL EXCHANGE

BASE METALS

Agriculture has projected that Iraq will import Im tonnes of wheat in the 1996 -97 marketing year from all origins. Traders expect that estimate to rise in today's

report from the agency. Wheat futures also gained support from hedge funds taking profits after setting short positions - betting on a fall in prices - late last

sel in Europe.

cents a barrel.

profit of \$1 a barrel two

weeks ago to a loss of 60

"It is a curious situation.

US refiners are competing

intensely for every last sale,

hut stocks are still quite

low." said Mr Ken Miller at

by government duty.

Domestic millers also bid up cash prices for hard red winter wheat. At midday, wheat futures for March delivery were up 6% cents a

bushel at \$3.851/2. The International Sugar Organisation has warned of "considerable downward pressure on prices" in the first quarter of 1997 after revising its view of world sugar production and con-

sumption in 1996-97. It is forecasting a 2.87m tonne surplus in the year to September 1997, which, in addition to stocks of 34m tonnes at the end of the 1995 -96 year, would increase stocks to over a third of annual consumption.

Sugar prices for March delivery on the London International Financial Futures Exchange yesterday closed at \$297.50 a tonne, an increase of 30 cents.



Gasoline is the problem product in European refining

to look at severe restructuring measures.

SOFTS

Purvin & Gertz in Houston. US refiners draw some Gasoline is the problem comfort from the buoyant product in European refindemand for gasoline in the ing. Although there is no US market, where a drop in sign of additions to refining wholesale prices is usually capacity, there has been a passed on to consumers creep in capacity," said Mr fairly quickly. In Europe, Paul Skinner of Shell Interpetrol prices are kept high national Petroleum. This has seen European

European refiners have plants working more effiseen gasoline refining mar-

gins almost halved over the round times to produce more past four years from \$4.25 to gasoline from the same \$2.33 a barrel, forcing them equipment.

Shell said on Tuesday it would sell its small Swiss refinery and take measures to raise profitability at two of its weakest European refi-

Mr Peter Bogin, analyst at Cambridge Energy Research Associates in Paris, said demand for gasoline had fallen as more cars run on diesel. European gasoline ciently, with faster turn- demand peaked in 1992 at 3m

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■ COFFEE 'C' CSCE (37.500lbs; cents/lbs)

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LONDON TRA Strike price \$ tonne				
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1600	2	37	87	92
■ COPPER				
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2000	223	200	4	76
2100	137	145	17	120
2200	70	102	50	175
EL COFFEE LIFFE	Jan	Mar	Jen	Mar
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Lead (US prod.) Tin (Kuala Lumpur) Tin (New York) Cattle (live weight) Sheep (live weight) Pigs (Ive weight) Lon. day suger (raw) Lon. day suger (wte) Berley (Eng. feed) Malze (US Nos Yellow) Wheat (US Dark North) Rubber (Jan)♥ Rubber (Feb)♥ Rubber (KL RSS No1) Coconut Ol (Phil)§
Pain Oil (Melay.)§
Copra (Phil)§
Specification (15) +5.0 +2.5

MEAT AND LIVESTOCK # LIVE CATTLE CME (40,000lbs; cents/lbs)

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ACROSS
1 Effect Ulster settlement (6) would be way out! (4) 6 Jocular talk which can get over superb plants col-9 Some refuse full-bodied wine, though it's beneficial 8 Like an aquatic bird's back

10 Animal doctor - a good 11 Managed little county man, devil take himi (8)
12 New pieces, almost all out-standing (8) farms (7)
14 Humiliated university peostanding (8) ple going into action (7)

13 Charm to wind up the audi17 Produce a brew of green

15 Can't find shade (4) 18 A real downpour may well 16 About to cut a prison affect vision (8)

19 The person willing to check stretch (7) 20 The top man who is popular (7) 22 A West Country town will show the way (6)

21 Many are brave (4) 25 Drinks to the queen, which can present a problem (6)
26 Swan song showing some taste (8)

28 Using a lever to obtain lift

accommodation is capital! with a certain hesitation 31 A leading journalist 7 upset

DOWN 1 A game played as permitted 2 All-inclusive cleaning operation (8) Set off - and without a

PUBLICAN SWERTE
O A W O P I O S
DEADS AUGUSTATES
II K T I D D O A
GUEARANCE SPRAY
E D U S U O
KIISMET PARAGON
S P E E O
ETERNAL CAESAR
R T O A W R E
GALOP COTSWOLDS
E O A K S I E S
ADVENTURE PAVILA
M E E D Y E C T

1224

5 To draw up about ten

spiteful in time (8)
7 31 being put out, created a

a corrupt backer (8)

23 Took a seat - and even

27 Recommend a change of

Solution 9,248

that's material (6) 24 A 100-line agreement (6)

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M ALUMINIUM, 99.7 PURITY (S per tonne 3 milia 1516-17 1507-8 251.00 73,080 M ALUMINIUM ALLOY (5 per I 1360-65 1323-6 1352-5 6,271 1,659 LEAD (\$ per tonne) 678-9 Kerb close Open ant. Total daily tu NICKEL (\$ per tonne) 6765-70 High/low AM Official Kerb close TIN (\$ per tonne 5780-85 Total daily turnove high grade (\$ per tonne) 1023.5-24.5 1048.5-49 1016.5-8.5 1041-3 1050/1044 1024.5-25.5 1050-50.5 ■ COPPER, grade A (\$ per tonne) High/low AM Official Kerb close ■ LME AM Official \$/\$ rate: 1.6568 LME Closing £/\$ rate: 1.6564 # HIGH GRADE COPPER (COMEX) 101.50 +0.80 101.70 101.80 85 1.370 101.50 +0.80 101.70 101.80 85 1.370 100.35 +0.80 101.15 99.50 5,949 25,004 98.60 +0.85 98.70 98.60 53 916 95.85 +0.95 97.55 96.20 60 4,748 PRECIOUS METALS (Prices supplied by N M Rothschild)

Gold(Troy oz) \$ price £ equiv SFr equiv fix 369.60 223.38 487.72 n fix 369.25 222.16 483.70 Day's High 370.00-370.40 Day's Low 367.85-368.25

revious close 368.40-368.803.12

486.50 492,40 297.90 6 months 498,45 510.60 311.55 S price Gold Colm

Precious Metals continued E GOLD COMEX (100 Troy az.: S/troy az.)

		Day's				Open
	price	change	High	low	Vot	
Dec	366.8	+0.1	369.4	368.2	174	871
Feb	370.6	+0.1	372.0	369.5	12,836	92,235
Apr	372.8		373.9			21,747
Jan	375.1	+0.2	376.1	374.2	966	16,045
Aug	377.A					5,442
Oct.	379.7	+0.2	380.6	379.5		2,369
Total					15,035	185,516
a PL	ATHUM	NYME	X (50 T	Troy oz	.; \$/bo	y 02.)
Jea	372.4	+0.7	373.5	369.1	1,458	16,894
Apr	374.5	+0.6	376.0	372.0	737	10,977
.jai	377.2	+0.8	378.0	376.0	32	2,038
0ct	380.0	+0.7	380.5	380.1	50	1,074
Total					2,277	31,203
# PA	LLADIU	M NYM	EX (100	Troy o	2.; S /In	oy (22.)
Dec	119.75	+1.00	_	_	7	201
Mar.		+1.20	122.75	121.25	937	
Jest	123.50	+1,20	-	-	5 0	383
Sep	124.50		-	_	~	5
Dec	125.50	+1.20	-	_	-	17
Total					994	7,618
M SH	VER CO	MEX (5,0	000 Troy	02: C	nts/troy	(Z2)
Dec	480.2	-1.0	485.0	475.5	40	276
Jac.	481.1		-	-	2	23
Har	4 8 6.0		482.0			56,854
May	490.4		494 5		45	
Jel	494.7					8,347
Sep	499.2	-1.1	499.2	499.0	_ 1	3.020
Total					7,684	84,482

ENERGY 23.71 -0.71 24.47 23.53 50,013 73,458 23.26 -0.70 24.04 23.15 30.158 67,457

E CRUDE OIL IPE (\$/barrel)

202 75 -10.25 209.50 202.75 9,327 8,433 205.00 -9.75 270.50 204.75 16,611 28,875 200.75 -9.25 204.00 200.50 5,079 12,489 195.00 -8.00 198.75 194.25 3,089 7,945 188.25 -7.90 191.50 187.75 2,812 5,340 183.00 -6.75 186.00 183.50 321 3,052

3.410 +0.014 3.520 3.300 21,176 34,389 3.150 +0 020 3.210 3.060 8.156 24.962 2,800 +0,035 2,830 2,740 1,857 14,720 2,435 -0,025 2,470 2,385 1,013 8,282 2.285 +0.005 2.310 2.270 607 7,119 2.190 -0.005 2.220 2.170 552 6,001

NYMEX (42,000 US galls., c/US galls.) 54.50 -2.36 67.10 63.70 16.596 27.311 64.20 -2.39 66.60 63.60 5.763 15.259 64.06 -2.39 66.10 63.60 5.763 15.259 64.06 -2.39 66.10 63.60 847 8.411 65.50 -2.44 67.40 65.75 665 3.818 65.45 -1.79 66.80 65.40 107 2.701

GRAINS AND OIL SEEDS WHEAT LIFFE (2 per tonne)

94.85 +1.10 94.85 94.00 25 2,072 105 2,155 13 322 - 2 10 811 196 6,730 97.00 +1.20 97.00 96.50 98.85 +1.40 96.85 97.95 100.00 +1.25 100.00 100.00 399.00 +5.50 400.00 392.25 255 1,115 382.75 +3.50 386.00 379.00 9,739 33,028 355.50 +2.75 358.00 354.50 890 5,265 322.75 +3.00 333.50 330.00 1,780 16,767 337.50 +3.25 338.00 336.00 35 759 346.00 +1.00 348.00 346.00 10 463 12,709 67,503 ■ MAIZE CET (5,000 bu min; centa/56b bushel) ■ COCOA (ICCO) (SDR's/tonne) 267.50 +1.00 267.75 268.00 5,905 15,773 264.50 +0.75 265.00 263.00 27,355145,255 268.75 +1.50 267.50 265.00 5,394 52,715 268.00 +1.50 268.50 266.75 10,069 54,373 93.75 +1.50 93.50 93.50 95.00 +1.50 94.50 94.50 96.25 +1.50 96.00 96.00 92.50 - -

261.50 +0.75 262.50 261.50 370 5.725 260.25 +1.50 260.75 258.25 3,913 34.277 50,211 310,741 472 226 130 681.50 +8.50 692.00 696.00 25,783 54,134 686.25 +7.25 686.50 679.00 11,400 39,759 685.50 +7.50 686.00 681.00 2,580 23,417 686.00 +7.50 686.00 682.00 4,223 22,489 685.50 +9.50 688.00 682.00 67 2,236 667.50 +5.50 688.00 688.00 94 403 46,388 183,225 # COFFEE (ICO) (US conts/pound) SOYABEAN OIL CET (60,000fbs: cents/fb) 23.00 +0.05 23.05 22.84 3.396 2.551 23.17 -0.02 23.34 23.67 7.608 31.677 23.56 - 23.73 23.42 5.027 28.764 23.84 - 23.98 23.68 1,045 13.761 24.06 -0.01 24.20 23.93 1,113 8,622 24.06 -0.01 24.20 24.93 1,113 8,622 24.08 -0.05 24.25 24.05 35 1,832 18,449 93.50 SUGAR '11' CSCE (112,000lbs; cents/lbs)

| 1.50 | 66.70 | 64.90 | 3.227 | 12.963 | Jun | 73.5 | - 62.0 | 62.0 | 2 | 37 | Jun | 73.5 | - - - | - - | Jun | 73.5 | - - - - | Jun | 73.5 | - - - - | Jun | 73.5 | - - - - | Jun | 73.5 | 76.17 | -0.36 | 76.45 | 76.10 | 4.891 | 26.120 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 | 76.55 |

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CFR; number four, 3,300, Indian casheves
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VOLUME DATA VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CET, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

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FINANCIAL TIMES THURSDAY DECEMBER 12 1996 FT MANAGED FUNDS SERVICE ● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Deak on (+44 171) 873 4378 for more details. **OFFSHORE** AND OVERSEAS Schroder Investment Mingari (Sc BERMUDA Rothechild Asset Management (CT) List FO Box 242, St Peter Part, Gascoley (Last) 7:10/40/3 Fo Abox 14th Aug Da. 5 \$44.2 15:27 +0.09 0 | The State | The Curron Contest 2000 Un 51-cen. 12

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Final Contest Solven High Solven Hight Solven Hight Sol H.S., Advisors (Concressor) Limited to State her to Language State to State her to Language State State Language Languag **IRELAND** (SIB RECOGNISED) iter Typeleti (Bermada) Liel oz Hari S.A. Harillon, Barrada (REGULATED)(**) ### 1822 | 14.65 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 Citalistorus investments Pic 1a Ber Lace, Coespeide, ECON SES Comits & Co Frend Mile Georges Cony, Dublis 2, in Seets Wood Frend Surracio Franchi Mingodi (Ricerson) 1941
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REGULATED)(**) EBC Fund Managers (Jersey) Ltd EBC Traded Cornery Fand Libr | SEC | Includ Currency First List* | 12,1805 +0,021 | 0,06 | 1,005 +0,021 | 0,06 | 1,005 +0,021 | 0,06 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 +0,021 | 1,005 Establica Terro-USS, SS4-54-35.7111 +0.0007 4.00 Establica Terro-USS, SS4-54-35.7111 +0.0007 4.00 Establica Terro-Dail, Dert38: 1810145 +0.0517 1.40

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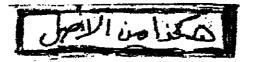
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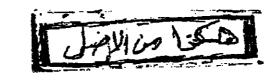
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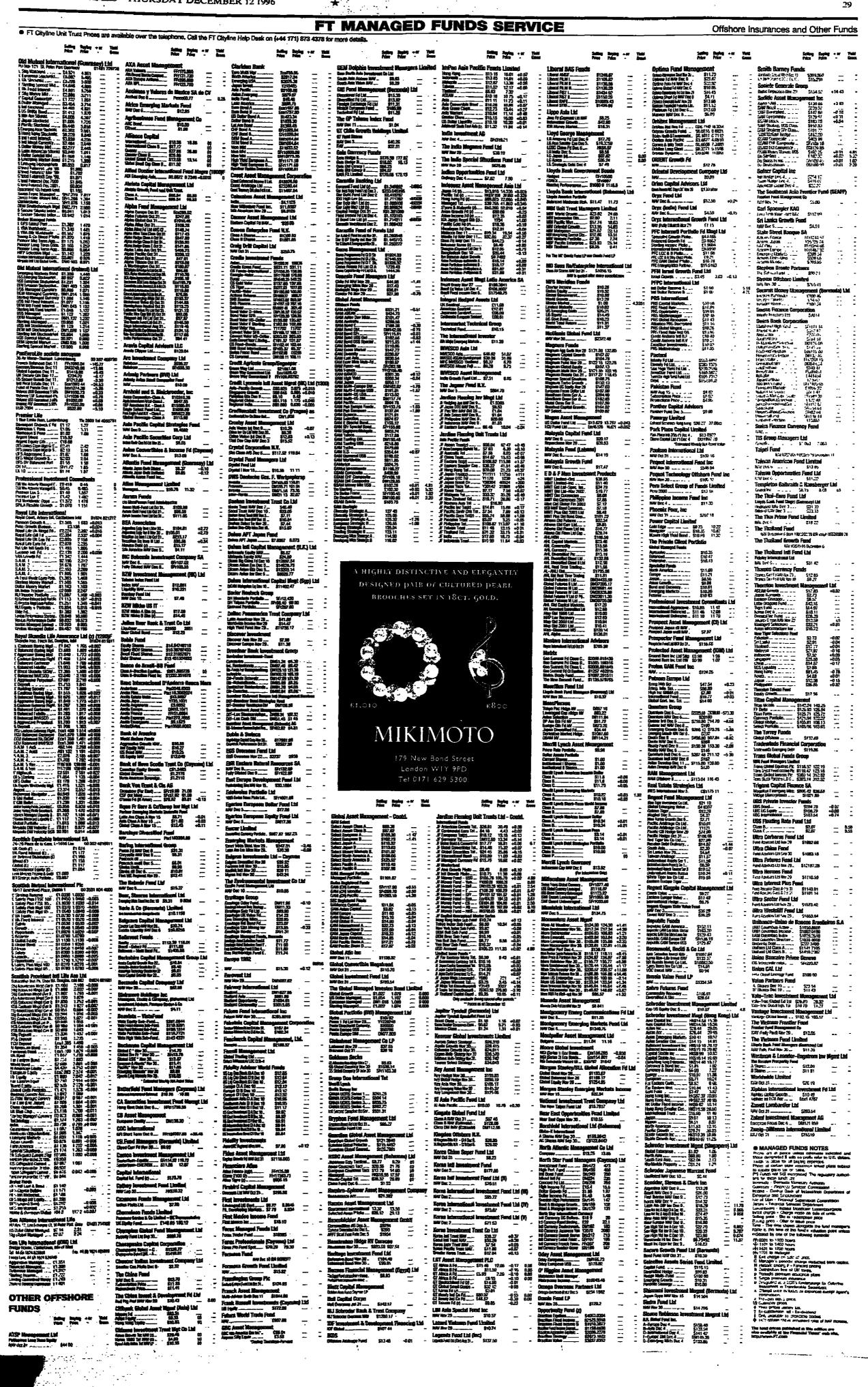


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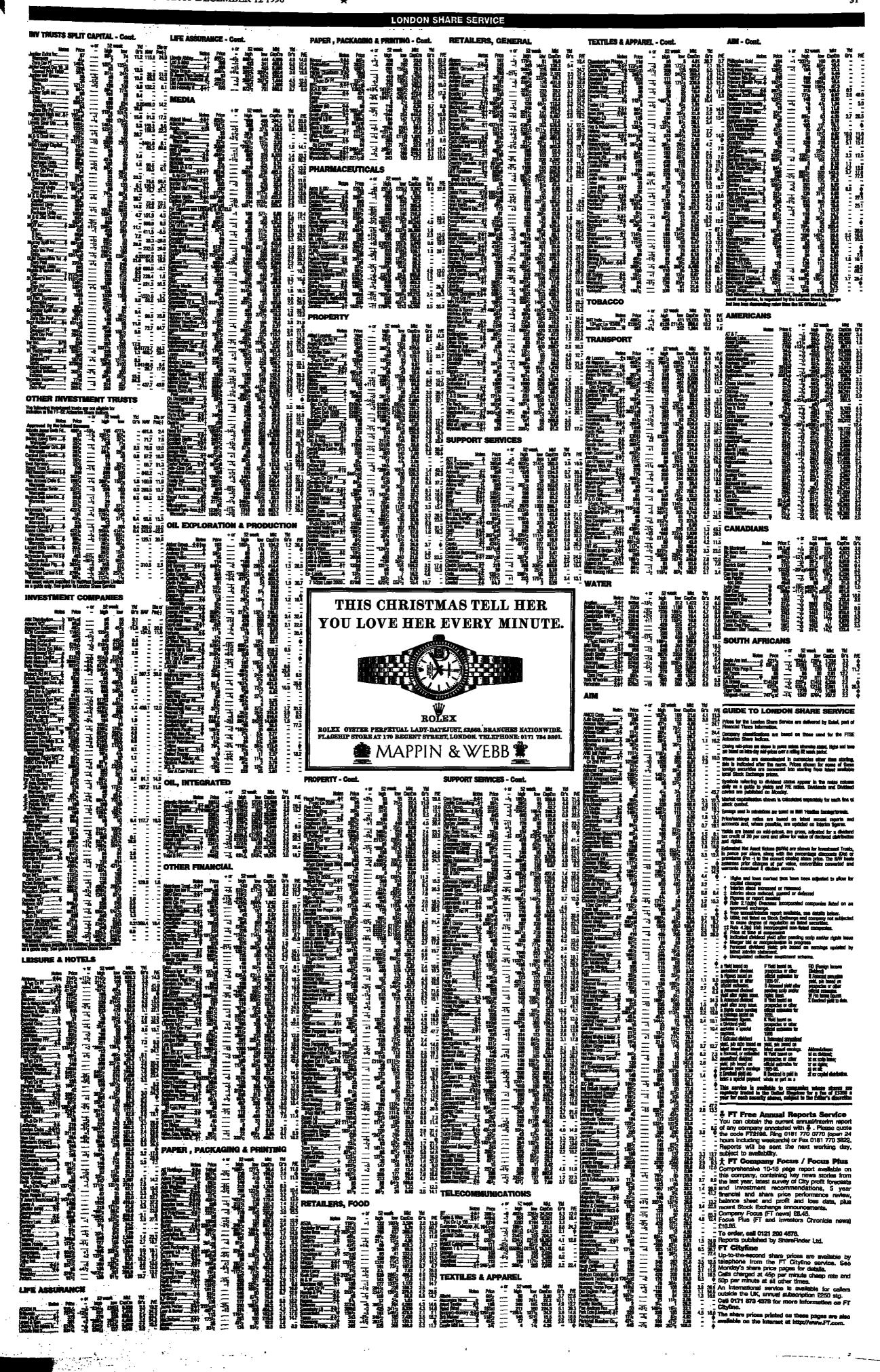
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Wall St fear factor returns to haunt Footsie

MARKETS REPORT By Steve Thompson,

UK Stock Market Editor A second wave of extreme

nervousness about the vulnerability of Wall Street htt European stock markets yesterday driving UK stocks sharply lower.

again started in the Far East, where the Tokyo and Hong Kong stock markets fell over 1 per cept amid increasing concerns that some Japanese institutions may he less inclined to support the US

of the hig Japanese banks was in induced by comments from Mr

trouble and having to sell assets Alan Greenspan, chairman of the cent against an expected figure of Street would open weakly proved in the UK and US to alleviate its US Federal Reserve. But it went 0.3 per cent. computer giant, could be immi- at 3,982.5. nent, were largely shrugged

additional unease. As the day wore on, there were other damaging rumours circu- the 100 index, closing 45.1 or 1 The latest scares for London lating, none of which carried much credibility but which nevertheless gnawed away at confidence. One of the big US brokers expected set of US producer price was rumoured to be telling its numbers for November were said clients to sell US stocks.

The FTSE 100 index had painstakingly recouped all but 15 There was also a story that one points of last Friday's 88.2 slide,

problems. Suggestions that a into a tailspin yesterday, closing profit warning from IBM, the a net 53.2, or 1.3 per cent, lower

At its worst, just before Wall aside, but not before it caused Street began trading, the index showed a 71.9 fall. The FTSE 250 fared only marginally better than per cent off at 4,366.8, while the SmallCap dropped 7.5 to 2,137.4. Rumours of a worse than

> In the event, the producer price figure came in only marginally . higher than forecasts, up 0.4 per

to have been circulating in Asian

as markets concentrated on London closed. events across the Atlantic.

despite the relatively benign the recent increase in turnover inflation data, which saw bonds retreat further from their initial losses in European markets.

surprised at the latest shakeout: and last Friday's, suggesting, "London got overly complacent on Monday and Tuesday, another big test was always on the cards," said one.

firmer at 4881/p.

stock, was unchanged at 117%p after a placing of

750,000 new ordinary shares

at 110p each, with the issue

of a further 20,000 shares to

its brokers in respect of its

David S. Smith, the paper

and packaging group, fell on

the back of a profits warn-

ing. Although interim profits

were at the top end of fore-

casts, the company warned

about the impact of sterling

on future profits. Analysts

downgraded their full-year

figures and the stock fell

sharply before rallying to

Chemring fell 45 to 290p

after the company posted a slim rise in annual profits

and warned of a disappoint-

ing level of sales in its

market trend as demerger

and takeover stories per-

Tobacco stocks defied the

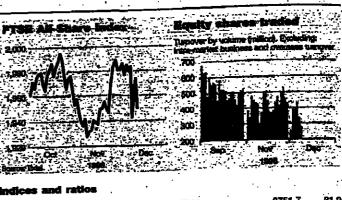
end 7 lower at 299½p.

defence unit.

correct. The Dow was off 93 Domestic events, including the points within 30 minutes of the resignation of Mr David Willetts, start of trading, rallied briefly, the paymaster-general, were and then continued its slide, postmostly shunted to the sidelines ing a three-figure fall just before

One of the more worrying sig-Wall Street had a weak opening nals emanating from London was levels. At the 6pm count, some 830.4m shares had changed hands, similar to Tuesday's fig-Marketmakers were not wholly ure and well ahead of Monday's some dealers said, that the institutions had started to lighten

weightings in UK stocks. Customer business on Tuesday was valued at £1.34bn.



After a second of the contract			•		
ndices and rati	OS .				
TCC 100	3982.5	-53.2	FT 30	2751.7	-31.
TSE 100	4386.8	-45.1	FTSE Non-Fins p/e	17,69	17.8
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TSE All-Share yield	3.87	3.82	Long git/equity yid n	1.99	7,8
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Heavy action in Gas

British Gas showed surprising resilience as traders began to note the serious some big investment institu-

Mercury Asset Management, one of the UK's bigrest fund managers, holds usbn of UK equities - 4 per cent of the UK market. However, including the shares held through Mercury nominees, it has only 1 per cent of British Gas. And the market capitalisation of Gas represents 1 per cent of the FT All-Share Index.

The data comes from Citywatch, the equities ownership analyst. The Citywatch research also shows that posal." Gartmore Investment Management, which holds more than 1.6 per cent of the UK 111/2 to 714% p after results market, has less than 1 per cent of Gas.

It is almost impossible to prospects for next year. have a full weighting in the stock because of the 25 per cent held by "Sids", individ- ing UBS, which raised its uals who bought shares on privatisation. However, the Mr Nigel Hicks at BZW said imbalance among some of that he held the stock on a the UK's biggest fund man-

agers is striking. Mr Simon Flowers of Nat-"It is clear that to have been bearish in Gas through 1995 capping of take-or-pay con- overseas exposure, with tracts and the demerger operations in Scandinavia

underweight reason for risk profile, another look at the shares." Abbey National was resil-Yesterday, Gas was steady at 218½p and the most

Footsie with 19m shares changing hands. Materials company Cookson Group regained some of the earlier losses as the mar- Pru fell 15 to 468p. ket focused on news that it underweight position of had sold its pigments business to Hoechst Celanese,

part of Swiss chemicals giant Hoechst. At the end of the session, shares in the group were down just 61/2 to 211p, having been lower following trade of

Mr Richard Rae at ABN Amro Hoare Govett had mixed feelings about the disposal for Cookson. He said said: "The deal is helpful in that it is earnings and cash-flow enhancing for 1997. But the market was taken aback Trafford stadium. by the size of loss on dis-

Airtours, the UK's second largest tour operator, rose ahead of expectations and upbeat comments about A number of houses

upgraded forecasts, includestimates by £5m to £105m. "hold" but this reflected Airtours' recent strong run and the uncertainty caused by West Securities commented: the investigation into the travel industry by the Monopolies and Mergers and 1996 was right. But last Commission. However, be week's announcement on the said that the company's

Cretabank **Ж**

ANNOUNCEMENT OF THE SALE BY

BANK OF CRETE S.A., A BANK REGISTERED AND OPERATING IN GREECE

ANNOUNCEMENT

EXTENSION OF THE DEADLINE FOR

SUBMISSION OF INITIAL BIDS

I. Article 8 of Law 2330/95 "Arrangements for the

Restructuring of the Bank of Crete SA" (Government Gazette

2 Joint Decision of the Ministers of National Economy, and

Finance, and the Governor of the Bank of Greece, No.

we published on the 5th, 6th and 8th of November 1996 an my dation for the submission of bids for the acquisition of 97% of the common voting shares and 100% of the nonvoting preference shares of the Bank of Crete S.A., in accordance with the terms and conditions contained therein.

We now announce that the deadline for the submission of mittal bids is extended until 14:00 Friday, 10 January 1997. All either dates and conditions of the auction process remain

The Under Liquidation Old Bank of Crete (Law 2330/95)

WORLD

TAX REPORT

In accordance with the requirement of,

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gives institutions who are and Canada, improved its

ient in early dealing but the bank's quiet insistence that heavily traded stock in the it had no intention of coming to any agreement with Prudential appeared to be paying off. The shares slipped 5 to 703%p while the

> Hanson was the subject of continued selling pressure said to come from US investors. The shares surrendered 31/2 to 80p, making it the worst performer in the Foot-

> Manchester United climbed 6½ to 584p after demand outstripped the supnly of 3m new shares, some 4.84 per cent of the enlarged capital, which were placed at 585p. Funds raised will be used for a variety of purposes including the club's new North stand at its Old

	Dec 11	Dec 10	Dec 9	Dec 6	Dec 5	Yr ago	'High	"Low	
FT 30	2751.7	2782.9	2772.8	2740.7	2797,1	2649.0	2885.2	2668.8	
Ord. div. yield	4,14	4.09	4.10	4.14	4.05	4.05	4.22	3.76	
P/E nationet	16.67	16.86	16.80	16.65	17.03	15.86	17.46	15.80	
P/E national	16.52	16.71	16.65	16.49	16.87	15.69	17.30	15.71	
FT 30 since compi	برؤان عجزاوا	2005.2 19	0496; los	49,4 265	06/40. Bes	e Date: 1/	7/35.		
FT 30 howly o	changes								

Open	9.00	10,00	11,00	12.00	13.00	14.00	15.00	16.00	High	LOW	
2765.0	2759.5	2761.2	2752.4	2754.3	2750.6	2747.3	2746.8	2751.3	2765.0	2739.5	
			Dec_1	11 De	Ç 10	Dec 9	Dec	6 0	ec 5	Yr ago	

	Dec_11	Dec 10	Dec 9	Dec 6	Dec 5	Yr ago
SEAQ bergains	34,835	36,321	37,010	42,424	36,338	27,454
Equity turnover @mit		1337.9	813.2	1231.6	1615.9	1858.5
Equity bergainst	_	19,395	20,862	22,966	20,301	32,258
Shares traded (mi)†	_	774.5	272.6	339.0	431.0	637.2
(Excluding intra-rearbet on	d Crest bus	iness and o	versees but	KOME'.		
Dec. 11	Dec 10	Dec 9 De	c 6 Dec	5 Yr 800	16ah	°Low

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Dec 11 Data b	ased on E	quity shares lis	ted on the Li	ondon Share Servic	9.

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in the fight against cancer.

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Chelsea Village, an Aim sisted Imperial Tobacco is tember 1997 in line with

hives off its financial services arm. Imperial rose 21/2 whose forecast was at the to 381p while BAT was bottom of the market range, yesterday raised its current Burmah Castrol, the oil refiner, was the Footsie's year forecast by £4m to £119m. It predicted earnings strongest performer as sevper share of 10.6p, a figure eral brokers spotted the stock's relative underthe broker indicated would performance against the have been higher but for the expectation of a "higher tax market and turned 'trading' buyers. Selective buying pushed the tightly-traded

electricity and gas supply businesses as part of a bid urged investors to sell. defence. Northern, which is attempting to ward off a hostile £782m bid from CE Electric of the US, fell 10 to 6011/p. Meanwhile, the remaining independent recs were sold off on fears that the outstanding bids will be referred to the Monopolies and Mergers Commission. Southern Electric fell 20 to

shares up 20 to 1083%p.

731%p and Yorkshire dropped 16 to 739p. Chester Water lifted 11 to 165p after Dee Valley Water made a recommended offer valuing it at around £20.8m.

New issue SDX Business Systems made an impressive debut. The shares, placed by Kleinwort Benson at 160p, ended the session 12% ahead at 1721/sp. The UK group is a designer of digital business systems.

News that Aon Corpora-

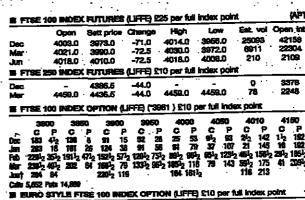
tion of the US is buying rival insurance broker Alexander & Alexander for \$1.23bn was seen as diluting the consoli-dation potential in the UK. Sedgwick and Willis Corroon fell 5 to 122%p and 4%

seen as a possible target for market expectations, fol-BAT Industries if the latter lowed the market lower and

closed 5 off at 175p. Charterhouse Tilney, charge in the coming year." British Airways fell 13% to

585%p in trade of 4.6m, with Panmure Gordon said to London Electricity dipped 7 to 640p on newspaper have reduced its current year profits estimate to Bec reports naming it as the util-£580m and the following ity with which Northern year's figure to 2600m. The Electric plans to merce its broker was said to have

FUTURES AND OPTIONS



TRADING VOLUME

Vol. Closing Day's 000s price change

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•		10.2			Archer Dedicated		_	20.8		1.0 55.6
§157					Brands Hatch	1822		W3.5		24 184
§130	F.P.		162 ¹ 2		Britt Allcroit	145 2	-1	L1.6		1.4 25.8
§138	F.P.	51.7			Car Group	165 ¹ 2	+3	W3.9		2.9 16.1
\$200	F.P.	37.8	246	2272	Cadcientre	22712	-2	124	25	1.3 28.6
- 5	F.P.	6.25	64	54	†Charterhee Come	ns 64,		₩	-	- 14.0
§115	F.P.	4.27	12212	1202	Dawn Til Dusk	1212		_		- 103
§275	F.P.	71.9	327 2	27212	Draid Gro	31412				- 34.2
§92	FP.	9.26	8712	9712	Exeter inv	9712		W3.5	1.6	45 17.A
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			1005		TRecycling Serve	9812		W3.2		41 -
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					Scot Highland Hit	136			24	27 13.8
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. 4	FP.				Do Zero Div Pri	184				
§180					Semple Cochrane	215				- 20.2
3100		25.8	34		Snekeboard	34		_	_ =	
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115 F.P. 13.9 130½ 122½ i Flutter in Tele 125 -1½	• •								. وا	-	
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inguites for the year to Sep- were unevaliable for this action.											
FTSE Actuaries Share Indices The UK Series Produced in conjunction with the Faculty and Entitles of Actuation											
	Dec 11	Day's chge%	Dec 10	Dec 9	Dec 6	Year	Div. ylekt%	'Net	P/E	Xd adj. ytd	
FTSE 100	3962.5	-1.3	4035.7	4011.6	3963.0	3662.4	4.00	2.03	15.48	167.61	1663.56
FTSE 250	4366.8	-1.0	4411.9	4385.0	4348.1	3942.3	3.61	1.50	23.14	171.98	1785.90
FTSE 250 ex !T	4404,4	-1,0	4448.2	4421,6	4384.7	3950.9	3.71	1.52	22.18	180.59	1805.42
FTSE 350	1976.7	-1.3	2008.9	1991.8	1969.3	18124	3.92	1.92	16.61	82.18	1688,41
FTSE 350 Higher Yield	1892.6	-1.3	1916.9	1906.0	1887.1	1809.1	5.21	1.78	13.38	103.10	1960.84
FTSE 350 Lower Yield	2072.1		2098.2					214	21.22	61.83	1454.68
FTSE SmallCap	2137.42	-0.3	2144.88	2137.44	2132.79	1944.34	3.23	1.57	24.60	68.27	1783,70
FTSE SmallCap ex IT	2136.35	-0.2	2141.35	2135.42	2133.49	1920.69	3.45	⁻ 1.64	22.12	72,33	1795.95
FTSE All-Share	1851.14	-1.2	1974.62	1963.13	1942.22	1786.09	3.87	1.90	17.02	79.84	1890.21
E FTSE Actuaries Ind	ustry S	Secto	rs.								
	_	Day's				Year	Div.	Net	P/E	Xd adi.	Total
	Dec 11	chge%	Dec 10	Dec 9	Dec 6	ego	ylek!%	COVER			Return
10 MINERAL EXTRACTION(23)	3797.39	-1.7	3864,56	3865.03	3809.53	3224.22	3.76	1,71	19.49	142 73	1664.45
12 Extractive Industries(8)	4019,48		4089.21								1198.00
15 Oil, integrated(3)	3924.65		4002.54								1767.62
18 Oil Exploration & Prod(14)	2921,43		2939.08					1.73			1770,75

E FISE Actuaries ind			rs								
	Dec 11 c	Day's	Dec 10	Dec 0	Dag 6	Year	Div.	Net		Xd adj	
	Dec 111	A CONTRACT	DOC 10	L LAGE 8	LAC 0	agu	ylek!%	cora	retio	ytd	Return
10 MINERAL EXTRACTION(23)	3797.39			3865.03				1.71	19.48	142.73	1884.45
12 Extractive industries(6)	4019 <i>.</i> 48	-1.2	4089.21	4135.66	4080.74	4231.66	4.04	2.66	11.64	162.00	1198.00
15 Oil, Integrated(3)	3924.65	-1.9	4002.54	3999.84	3941.29	3272,45	3.93	1.55			1767.62
18 Oil Exploration & Prod(14)	2921,43	-0.6	2939.08	2892.60	2853.88	2022.67	1,81	1.73	40.01	52.93	1770,75
20 GEN INDUSTRIALS(275)	1955.92	_10	1078 53	1982.44	1046 07	1022 90	4.39	1.64	_		1092.61
21 Building & Construction(34)	1169.51			1150.29				1,51			997,53
22 Building Matts & Mercha(29)	1761.38			1789.32				1.40			910.18
23 Chemicals(25)	2349.28			2361.88				1.43			
24 Diversified industrials(19)	1421.19			1415.64				1.54			1140.24
25 Electronic & Bect Equip(36)	2214.19			2231.72				1.34			820.01 1168.19
26 Engineering(71)	2543.39			2549.23				2.30			
27 Engineering, Vehicles(14)	3092.48			3124.65				1.71			1573.26 1632.28
28 Paper, Policy & Printing(28)	2448.35			2447.54				1.82			
29 Textiles & Apparei(19)	1056.39			1047.04				1.16			1042.49
									(3.50	<u>087</u> 00	657.77
30 CONSUMER GOODS(82)	3700.88			3696.03				1.95			1399.26
32 Alcoholic Beverages(8)	2595.00			2642.88				1.85	13.61	126.10	960.86
33 Food Producers(25)	2584.57			2597.14				1.77	16.71	105,92	1195.10
34 Household Goods(15)	2500.67	-1.7	2544,07	2557.22	2548.27	2568.04	4.09	2.23	13.68	191.20	1008.85
36 Health Care(18)	1986.15	-1.0	2007.14	1896.29	1987.51	1040.50	3.60	1.93	21.59	56.96	1226.33
37 Phermaceuticals(14)	5700.27	-0.7	5741.36	5884.48	5833.74	5032.48	3.00	2.01			1969.69
38 Tobacco(2)	4078.58	+0.2	4089.79	3973.79	3785.01	4836.87	6,36	2:13	9.23	262.07	1049.79
40 SERVICES(252)	25/19.04	-1.1	2596.52	2582.95	2562 N1	2200 33	2.95	1.98			1360.02
41 Distributors(30)	2888.84			2884.78				2.01			1077.22
12 Leisure & Hotele(25)	3232.74			3244.78				1.99			1758.21
43 Media(44)	4107.91			4149.00			2.25	211			1504.18
44 Retailers, Food(14)	2055.73			2070.26				2.28			1338.54
45 Retailers, General(45)	2061.10			2076.39				2.03			1203.50
47 Breweries, Pubs & Rest.(21)	3249.30			3244.03				208			1579.09
48 Support Services(50)	2732.89			2722.59				223	50 Rs	E0.92	1756.59
49 Transport(23)	2605.37			2816.71				1.23	27 Rg	01.49	1111.85
BO UTELITIES(SS)	2439.85										
62 Electricity(12)	2635.46			2466.07				1.70			1098.74
64 Gas Distribution(2)	2033.40 1470.95	-1,0		2667.48				2.16			1443.10
66 Telecommunications(8)				1464.55				0.54			804.86
	2034.33			2053.64				1.51	20.25	58.10	948.50
68 Water(11)	2228.70	-1.5	2262,74	2282.35	<u> 2296.38</u>	<u>21</u> 09.83	6.68	230	<u>8.14</u>	135.09	1283.16
88 NON-FINANCIALS(885)	2030.91	-1,1	2053.04	2042.71	2020.14	1879.73	3.91	7.81	17 Ap	25.55	1580.07
70 FINANCIALS(104)											
	3361.26			3387,48				2.36			1482.72
71 Banks, Retail(8)	4834.84			4861.88				2.70	12.29	182.15	1618,38
72 Banks, Merchant(6)	3672.31			3872.05				3.01	15.45	104.20	1249.35
73 Insurance(21)	1558.25			1591,35				2.29	10.12	80.65	1207.19
74 Life Assurance(7)	3826.15			3992.13				1.78			1889.26
77 Other Financial(20)	2774.18			2790.90				1.77			1618.40
79 Property(42)	1691.19	-1.4	1715,01	1689,47	1689.24	1397.90	3.80	<u>1,30</u>	25.18	56.69	1063.65
O DIVESTMENT TAUSTS(126)	\$128.26	-1.2	3183.27	3141.3B	3116.69	2007.60	2.28	1,13			
											1106.18
59 FTSE All-Share(895)	1951.14	-1.2	1974.62	1963.13	1942.22	1786.00	3.87	1_90	17.02	78.64	1690.21
TSE Fledgling	1206.35	-0.4	1210.60	1205,52	1198.70	1104.93	2.90	0.89			
TSE Fledgling ex IT				1218.62				0.81	42.0H	34.10	1281.79
. and . washing an it		-0.0	-220.00		.211.24	. (07.34	2.10	U.D 1	55./0	37.22	1298.42
				-							
I Hourly movements											

	Ореп	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100 FTSE 250 FTSE 350	4006.8 4394.1 1991.6	4003.0 4388.4 1988.8	4008.3 4388.5 1990.1	4380.9	4380.1	3961.5 4375.2 1979.1	4372.9	4364.3	3981.4 4387.3	4008.8 4994.1	_
Time of PTSE 100	Day's high; 8	30 AM De	y'a low; 24	M PML FTS	SE 100 196	6 High: 40	73.1 (21/10	796) Lows (9632.3 (16	^{107/96}).	٠.

	Abte	8700	10,00	11.00	12,00	Játha	14300	15000	76.10	Close		Chenge
Bidg & Cristren Pharmaceuticle	1147.2 6880.7	1146.1 5688.9	1146,2 5831,3	1146.0 5611.0	1146,9 5615,0	1145.2 5812.5	1144.8 5603.7	1142,4 5600.7	1143.5 5829.7	1143.5 5629.7	1152.0	-8.5 -40.9
Water Banks, Retail	4919.9	4926.9	4945.3	4925.3	4912.8	4895.5	4885.9	2198.2 4884.3	4891.1	4896.6	4962.3	-34.8 -85.7
For further information on the FTSE Actuaries Share indices please contact FTSE international on 0171 448 1810. The FTSE Actuaries Share indices are calculated in accordance with a standard set of ground rules established by FTSE international in confusional or origination with the Faculty of Actuaries and the institute of Actuaries. O FTSE international Limited 1996. All Rights reserved: "FT.SSP and Footoble as wade motion of the London Stock."												

to 129%p respectively. In transport stocks, freight roup NFC, which released

FIS	E All-Share	1951.14	4 -1.2	1974.62	2 1963.13	1942.22	1786.09	3.87	1.90	17.02	79.84	1890.21
	FTSE Actuaries Indi	ustry	Secto	ers.								
		-	Day's				Year	Div.	Net	PÆ	Xd adj	Total
		Dec 11	chge%	Dec 10	Dec 9	Dec 6	ego	ylek!%	COVEL	retio	ytd	Return
10	MINERAL EXTRACTION(28)	3797,3	9 -1.7	3864.56	3865.03	3809.53	3224.22	3.76	1.71	19.48	142.73	1684.45
	Extractive industries(8)	4018.4	8 -1.2	4069.21	4135.68	4080.74	4231.66	4.04	2.66			1198.00
	Oil, Integrated(3)	3924.6	5 -1.9	4002.54	3999.84	3941.29	3272.45	3.93	1.55			1767.62
18	Oil Exploration & Prod(14)	2921.4	30.6	2939.00	2892.60	2853.88	2022.67	1,81	1.73	40.01	52.93	1770.75
20	GEN NOUSTRIALS(275)	1955.92	2 -1.0	1976.53	1982.44	1936.07	1922.80	4.39	1.64	17.90	81 8B	1092.61
	Building & Construction(34)	1169,51			1150.29				1,51			997.53
22	Building Matts & Mercha(29)	1761.38	8 -1.7	1791.58	1788.32	1775.50	1759.27		1,40			910.18
	Chemicals(25)	2349.25			2361.86				1.43			1140.24
	Diversified inclustrials(19)	1421.18			1415.64				1.54			820.01
	Electronic & Elect Equip(36)	2214.19			2231.72				1.34			1168.19
	Engineering(71)	2543.30			2549.23				2,30			1573,26
	Engineering, Vehicles(14)	3092.48			3124.65				1.71			1632.28
	Paper, Pokg & Printing(28)	2448.35			2447,54				1.82			1042.49
	Textiles & Apparei(19)	1056.36		1061.53	1047.04	1045.44	1423.85	-6.75	1.16	15.98	69.60	657.77
	CONSUMER GOODS(82)	3700.80			3696.03				1.95	16.27	146.17	1399,26
32	Alcoholic Beverages(8)	2505.00			2642.88				1.85			960.86
	Food Producers(25)	2584.57			2597.14				1.77	16.71	105,92	1195.10
	Household Goods(15)	2500.67			2557.22				2.23	13.88	191.20	1008.85
	Health Cere(18)	1986.18			1996.29				1.93	21.59	56.96	1226.33
	Phermaceuticals(14)	5700.27			5884.48							1969,69
	Tobacco(2)	4078.56	3 +0.2	4059.79	3973.79	3785.01	4836.87	6.36	2:13	9.23	262.07	1049.79
40	SERVICES(252)	2569.04	4 -1.1	2596.52	2582.95	2562_01	2209.33	2.95	1.98	21,48	80.64	1360.02
	Distributors(30)	2B86.84	-1,0	2896.46	2884.78	2877.09	2526.56	3.02	2.01			1077.22
	Leisure & Hotele(25)	\$232.74		3258.21	3244.78	3197.93	2613.07	2.79	1.99			1758.21
	Media(44)	4107.91			4149.00				2,11			1504.18
44	Retailers, Food(14)	2055.73			2070.26				2.28			1338.54
	Retailers, General(45)	2081.10			2076,39				2.03	19.30	72.79	1203.50
	Breweries, Pubs & Rest.(21)	3249.30			3244.03				2.08			1579.09
	Support Services(50)	2732.8			2722.59				2.23			1756.59
	Transport(23)	2605.37	/ -0.9	2628.54	2616.71	<u> 2576.75</u>	2141.44	3.70	1.23	27.59	93.48	1111.85
	UTILITIES(33)	2439.86			2466.07				1.70	13.35	185.51	1098.74
	Electricity(12)	2635.46			2667.4B				2.16			1443.10
	Gas Distribution(2)	1470.90			1464.55				0.54			804,86
	Telecommunications(8)	2034.33	3 –1.7	2088.59	2053.64	2047,12	1934.68	4.09	1.51	20.25	58.10	948.50
<u>68</u>	Water(11)	2228.70	-1.5	2262,74	2282.35	2296.38	<u>21</u> 09.83	6.68	2.30			1283.16
69	NON-FINANCIAL SIBES	2030,91	1 -1.1	2053.04	2042.71	2020.14	1879 79	3.91	1.81	_		1580.07
_												
	FINANCIALS(104)	3361.26			3387,48					13.35	129,85	1482.72
	Banks, Retail(8)	4834.84			4861.88				2.70	12.29	182.15	1618,38
	Banks, Merchant(6)	3672.31			3872.05				3.01			1249.35
	Insurance(21)	1558.25			1591,35				2.29			1207.19
	Life Assurance(7)	3826.15			3992_13				1.78			1669.26
	Other Financial(20)	2774.18			2790.90				1.77	17.59	104.43	1618.40
	Property(42)	1691.18	-1.4	1/15,01	1699,47	1009.24	1397.90	3.80	<u>1,30</u>	<u>25.1</u> 8	56.68	1063.65
80	BIVESTMENT TAUSTS(128)	\$128.26	<u>-1.2</u>	3163.27	3141.3B	3116.52	2007,59	2.28	1.13			1106.18
89	FTSE All-Share(895)	1951.14	-:		1963.13		_					
_				_					1_90	17.02	78.64	<u> 1690.21</u>
	E Fledgling	1206.35			1205,52				0.69	62.39	34.10	1281.79
FIS	Fledgling ex 17	1220.00	-0.3	1223.60	1218.62	1211.84	1107.34	3.10	0.81			1298.42
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-	Hourty movements											

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FTSE 100 FTSE 250 FTSE 350	4006.8 4394.1 1991,6	4003.0 4388.4 1988.8	4388.5	4380.9	4380.1	3981.5 4375.2 1979.1	4372.9	4364.9	4387.3	4904 4	40000
Time of PTSE 100 D	ey's high; 8	30 AM De	y'a low; 24	ZE PAL FTS	SE 100 196	6 High: 407	73.1 (21/10	796) Love :	164 164 164	07/56).	٠.
M ETGE 354	n India	-									

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	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bidg & Cristren	1147.2	1146.1	1146,2	1146,0	1146,9	1145.2	1144.8	1142,4	1143,5	1143.5	1152.0	-8.5
Pharmaceuticle	58B0.7	589R S	5831.3	5811.0	5815.D	SB12.5	5603.7	5600.7	5829.7	\$850.7	5677A @	
Water	2228,8	<u>222</u> 4,4	2224.2	2207.8	2208.4	2200.1	2200,2	2198.2	2213.0	2213.4	2248.2	-34.8
Banks, Retail	4919.9	4926.9	4945.3	4925.3	4912.8	4895.5	4885.9	4884.3	4891.1	4896.6	4962.3	-85.7
For further inform	no nodes	the FTSE	Actuarie	s Share	indices p	lease cor	ntact FTS	E Interna	donal on	0171 44	8 1810	
The FISE Actuar	188 Share	indices :	are celcu	iented In a	COOLCAN	s din ac	standard	set of gr	DUNG RUK	estab	lished by I	TSE
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CONTRACTS & TENDERS

Regd. Charity No. 261017

TENDER ANNOUNCEMENT FROM BOTAS PETROLEUM PIPELINE CORPORATION

BOTAS intends to open an international bid for the construction of Dogubeyazit-Erzurum Natural Gas Pipeline having a diameter of 40" and approximately 300 km. in length. The required conditions for the companies which will participate the bidding, are the following; Having been completed the construction of steel

pipelines at least 50 km. in total length with the various diameters (10" and above)

Having been completed the construction of industrial plants and steel pipelines having a total cost of 20

To have the equipment and machinery with the sufficient amount which is necessary to construct the a.m. pipeline. The companies satisfying the a.m. conditions can participate the bidding individually or by forming consortium. At least one of the consortium members or the

total of the consortium members have to satisfy the mentioned requirements in the case of appliance as

The tender bond of this Project is 3 million USD.

The companies or consortiums which satisfy the required conditions shall obtain the Tender Documents from the following address between the dates 13-25 December 1996 by paying the amount of 5000 USD. Final tender date is 28th February 1997 and bids will be opened in the presence of the representatives of the bidders.

BOTAS is not subject to Act No: 2886 **BOTAS-Petroleum Pipeline Corporation** Department of Engineering and Construction

06690 Güvenevler/ANKARA/TURKEY

Günes, Sokak No. 5

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	Ranks and			fore or see	graphic and
		FINANCIAL TIMES THURSDAY DECEMBER 12 1996			33
		Highs & Lows shown on a 52 week basis WORLD STOCK MA	ARKETS		
	4	-1- Mai: Last Till Pill	+7- High Line Tid.	10 13 14 15 15 15 15 15 15 15 15 15 15 15 15 15	Toph Low Yor PAS +1- High Low YM PAS Sales +1- High Low
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	_	Import 12.00 -35 12.10 15	266 287 -1 388 280 261 1,250 -231 1,500 1,100 1,7 261 43 886 851 1,0 263 401 -3 804 383	Tortico 2.190 -20 3.51 Tortico 1.440 -80 1.86 Tortico 4.02 -2 8.4 Tortico 4.02 -2 8.4 Tortico 5.00 - 60 2.2 Tortico 5.00 - 60 Tortico 5.00	50 501
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173章 (144. **) (1 <u>4. **</u>) (14. **)	,	ACT 186-40 -5-50 175-30 27 - 105 343 21 - Plant 77.90 -50 30.40 20.30 - 5 finish 6.40 -1.00 0.00 0.70 22 - Calmic 734 -72 402 670 - Miles 4.00 -5.50 175-30 188-30 88 - Miles 4.1 1.105 -6.1 550 660 0.8 - Miles 4.20 -7.0 68.10 18.0 - 10.00 0.70 - 10.00 0.70 -10.00 0.70 1.105 - 10.00 0.70 - 10	ASS 401 -3 504 355	Upda: 2772 -3 34 Victor 1,340 -50 1,54 Victori 1,340 -50 1,54 Victori 1,340 -20 2,07 Victori 1,050 -20 1,18 Victori 1,050 -20 1,18	25 25 John 3.70 327 277 336 10 1:30 knope 10:30 11:20 5 0.6 10 1:30 knope 12:30 30 14:40 10:30 1.2 70 1:40 knope 12:30
		Ranch 422 -136 47 54 10 - 1665 55 45 55 47 23 - 1666 55 47 23	350 1,200 - 1,550 1,150 0.5 - 4,551 1,150 0.5 - 1,550 1,150 0.5 - 1,550 1,150 0.5 - 1,550 1,150 0.5 - 1,550 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5 0.5	Ymmshaf 1,060 -20 1,18 1,060 -20 1,18 1,000 -20 1,18 1,000 -20 1,18 1,000 -10 2,11 1,000 -10 2,17	28
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- 1700年 - 第70 - 170 -		House Bonds 103.33 1 Ma Ordinality 1/809 2523 2551.5 2398.8 2394.70 25711 2005.19 177 Miningulas MI Ordinality 1/809 252.0 522.1 1118.40 35 512.20 5712 NSS Compt/4/809 1204.39 1214.52 1203.35 1234.73 26711 5693.18 27 Miningulas 1204.39 12	100.00	AM 1.26 - 1.3 APTOWN 2.25 - 1.3 ORT 7.55 - 1.3 20.00	44 1.58 2.77 h Hefinot 18,800 +200 10,5518,500 0.3 h Eminds 27.75 +25 22.71 17.50 4.6 h 12.52 5.82 5.4 km 4.75 2.70 +250 2.00 2.50 2.54 1.9 h 150 2.52 5.82 5.4 km 4.70 2.50 2.50 2.50 2.50 2.50 2.50 2.50 2.5
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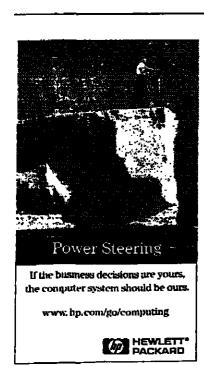
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send Dow tumbling

AMERICAS

Rising bond yields sent US share prices sharply lower at of a warning from Union midsession, beloing to erase all of the gains made so far fourth quarter would be hurt this week, writes Lisa Bransten in New York.

The Dow Jones Industrial Average tumbled nearly 130 points at one stage but by early afternoon, it was slightly off its worst levels of the session with a loss of 91.49 at 6,381.76.

The Standard & Poor's 500 tumbled 10.14 at 737.40. NYSE volume was heavy at 303m shares.

Technology shares, which had led the way up as the market bounced back from Friday's sell-off, were also weak yesterday. The Nasdag composite index slipped 13.28 at 1,299.27 and the Pacific Stock Exchange technology

index was off 1.6 per cent yields as a trigger for the sell-off in shares that saw the Dow give up almost exactly all of the gains it had made in the previous two sessions. By early afternoon

Cyclical shares were hit from the opening bell as hard both because of the rise in interest rates and because Carbide that earnings in the by rising raw material prices. The Morgan Stanley index of cyclical shares slid

companies lost 1 per cent. Shares in Union Carbide, which is a component of the Dow, lost \$2% or 6 per cent

1.6 per cent, while the coun-

terpart index of consumer

Interest-rate sensitive banks were also weaker. Citicorp lost \$1% at \$101%, Chase Manhattan Bank shed \$1 at \$88% and NationsBank fell \$2% at \$95%.

On the technology side, several larger capitalisation shares managed to buck the falling market. Intel, which is the largest company on the Nasdaq, added \$4% at Analysts cited rising bond \$138% after an analyst at Merrill Lynch reportedly raised his estimate of what the semiconductor maker will earn in 1997. Microsoft. the second largest Nasdaq company, managed to

Canadian stocks pushed lower on a broad front in line with Wall Street.

15 minutes. At noon, it stood Trade throughout the morning session was described as

leading stocks, Alcan Aluminium fell C\$1.10 to

Wall Street's woes exerted downward pressure on Latin American markets. SAO PAULO tumbled 2.4 per cent at midsession, when the Bovespa index stood 1,649 lower at 66,910 and as Telebras fell

MEXICO CITY was

marked down as sliding blue chips weighed heavily on thin volume. By midse the IPC index was 43.63 weaker at 3,263.43.

Early losers included Cifra, the retail stock, which lost 18 centavos at 10.16

the yield on the benchmark reverse an early loss and pesos, and Modelo, the was \$½ stronger at \$32%. brewer, which lost TORONTO fell steeply vos at 44.85 pesos. brewer, which lost 65 centa-30-year Treasury had risen

Joburg golds rise in mixed session

Shares in Johannesburg had pushed lower by a decline of sure from the derivatives a mixed session with indus- 45.6 to 7,851.8 for industrial market throughout the sessteadily lower but golds, 15.4 to 1,542.1. underpinned by a better bul-

trial stocks streaming shares. The golds index rose

Sentiment took its cue lion price, edging upwards. from a weak futures open-gold was one of the more At the finish the overall ing. According to traders, active gold shares, adding 60 index was off 27.3 at 6,639.1. there was downward pres- cents to R35.85.

sion. De Beers ended R1.75 lower at R138 and Gencor shed 20 cents to R16.75. Free-

EMEN	uiatu R	MANNE 13:			STABLE PR		
			Dollar term			ocal currency	
Market	No. of stocks	December 6 1996	% Change over week			% Change ?	
Latin America	(250)	528.41	+0.6	+12.0			
Argentina.	(31)	912.08	+0.3	+13.9	559,351.34	+0.3	+13.9
Brazil	(68)	384.63	+2.6	+26.0	1,448.69	+2.6	+26.0
Chile	(45)	637.11	-2.5	-14.9	1,071.91	-2.5	-14.9
Colombia ¹	(14)	638.57	-0.5	+6.8	1,127.18	-0.5	+6.8
Mexico	(64)	518.68	+0.6	+14.5	1,773.64	+0.6	+14.5
Peru²	(19)	198.51	+0.8	+0.6	313.20	+0.8	+0.6
Venezuela³	(9)	681.28	-1.5	+103.8	7,413.62	-1.5	+103.6
Aeia	(711)	249.98	-1.8	+7.7	•		
China ⁴	(27)	70.88	+10.7	+31.0	74.27	+10.7	+31.0
South Korea ^s	(156)	82.49	-6.4	-34.5	90.12	-6.4	-34.5
Philippines	(42)	293.08	+1.1	+12.9	372,35	+1.1	+12.9
Taiwan, China	(90)	1 52.6 0	+1.0	+35.3	157.54	+1,0	+35.3
India ⁷	(79)	72.69	-2.4	-9.5	92,41	-2.4	-9.5
Indonesia*	(49)	127.65	+2.2	+16.4	163.02	-2.2	+16.4
Malaysia	(148)	325.52	-3.0	+20.0	302.79	-3.0	+20.0
Pakistan ^a	(28)	218.33	-2.3	-10.0	398.84	-2.3	-10.0
Sri Lanka®	(5)	99.32	-2.5	-4.6	122,97	-2.5	-4.6
Thailand	(87)	239.07	-5.9	-36.4	242.55	-5.9	-36.4
Euro/Mid East	(264)	133.23	-1.7	-5.9			
Czech Rep	(7)	64.91	+0.8	+8.2	58.95	+0.8	+8.2
Greece	(54)	238.75	-1.0	-1.2	393.36	-1.0	-1.2
Hungary™	(12)	177.00	-1.0	+79.8	339.37	-1.0	+79.8
Jordan	(7)	189.54	+3.4	-2.6	283.18	+3.4	+2.6
Poland ¹²	(30)	700.76	-1.2	+64.4	1,256.24	-1.2	+64.4
Portugal	(28)	141.17	+0.8	+22.0	150.99	+0.8	+22.0
South Africa ⁿ	(63)	207.66	-3.0	-19.5	199.98	-3.0	-19.5
Turkey™	(58)	155.45	+2.4	+48.8	7,559.72	+2.4	+48.8
Zmbabwe®	(5)	439.46	0.0+	+60.0	696.61	0.0	+60.0
Composite	(1225)	291.28	-1.0	+5.6			

Bombay rebounded sharply from recent weakness on hopes that the Indian government would reconsider the imposition of a minimum corporate tax on companies, writes Tony

The BSE-30 index leapt by a morale boosting 5.1 per cent or 142.86 to 2,941.43 in heavy volumes. Analysts said that the market had been due for said that the market had been due for a technical correction after its recent hammering, which took the index to a three-year low last week of 2,713 from its high for the year of 4,131 on June 17. The rally started in unofficial after-hours trading on Tuesday night, following hints by Mr H D Deve Gowda, the prime minister, that his government might reconsider the 12.9 per cent minimum corporate tax. introcent minimum corporate tax, intro-duced in July's national budget. The comments sparked widespread covering of short positions by local specula-

NATIONAL AND REGIONAL MARKETS

The World Index (2433).....225.51

FT/S&P ACTUARIES WORLD INDICES

US Day's Pound Dollar Change Starling Index % Index

tors. Foreign institutional investors then joined in the buying, taking the opportunity to buy up oversold stock and carry out "window-dressing" of accounts before the year-end. A dealer with brokers James Capel Batlivala and Karani said the rally had been "heartening" but said there were some doubts about its sustainability. Other analysts said there was scepticism over whether the minimum corporate tax would be repealed, given expectations that the government would struggle to meet its target of cutting the fiscal deficit in the year to March to 5 per cent of gross domestic product. tors. Foreign institutional investors

There were also long term problems overhanging the market such as politi-cal uncertainty, the slowing of economic reforms, an easing of economic growth and a fall in corporate earnings growth.

US Dollar Index

0.2 202.41 161.57 182.18 185.24 0.2 2.03 224.97 202.45 161.15 182.05 194.85 228.97 198.47 200.25

Pound Sterling Index

Gross Div, Yield

Rising bond yields Bourses fall on transatlantic fears

The bull market tried to defend itself on both sides of the Atlantic. A story that Japanese investors would Lehman Brothers called a cut their buying of US treasuries was diluted on televi-

The 300 composite index sion and disputed by US was off 99 points in the first traders and analysts; US analysts were also sceptical at 5.805.85, down 114.51. about rumours of a profits warning from IBM. But weakness in US trea-

suries hit the dollar, and All 14 sub-groups within European bond and equity the index fell, led by heavy markets; and while continendeclines among banks, tal bourses ended off their energy and golds. Among worst, falls of between one and two per cent were the order of the day.

FRANKFURT dropped 1.9 per cent, the Dax index closing 54.59 lower at an Ibis-indicated 2,836.36 after a day's low of 2,819.68. Turnover eased slightly, from DM10.9bn to DM10.4bn. The big three chemicals

continued to lead active stocks, trading in DM2.1bn between them. Their share price losses ranged between a drop of DM2.57 or 4 per cent to DM62.38 at Bayer, and one of just 34 pfg to DM70.88 at Hoechst, as it followed Tuesday's speciality chemicals merger with an offer for the minority in Roussel Uclaf, its French pharmaceuticals subsidiary.

Most carmakers also paid

leading the Ibis winners with a gain of DM50 or 4.1 per cent at DM1,270, following what Mr Chris Will at very positive analysts' meeting last Friday. After the weekend, Mr Will raised his price target to DM1,650.

PARIS moved lower in line with leading European hourses. The CAC 40 index FFr236 at Casino. slid 38.12 or 1.7 per cent to 2.213 28

Motor stocks led the way down following downbeat comments from Mr Jacques Calvet, the chairman of Peugeot. Renault fell FFr3.80 or 3.8 per cent to FFr110.90 and Peugeot came off FFr15 to FFr590.

The Peugeot boss told a news conference that although he expected European car demand to remain stable next year, sales in France were likely to shrink by up to 10 per cent. Dollar stocks were flat,

notably LVMH, the luxury goods group, which tumbled FFr83 to FFr1,272. Energy prices. Total shed FF15.68 to FFr397 and Elf FFr6-30 to FF143L

morning announcement that Carrefour had snapped up 33 per cent of GMB, which con-

Y30 at Y1.030.

ume of 29.3m shares.

falls by 84 to 21.

of NZ\$25.1m.

the formation of a new coali-

The new government is

committed to keeping New

FTSE Actuaries Share Indice THE EUROPEAN SERIES Open 10.30 11.60 12.00 13.00 14.00 15.00 Closs Housty changes FTSE Burstrack 100 1862-34 1858.78 1858.19 1857-54 1855.86 1853.40 1851.95 1854.05 FTSE Burstrack 200 1904.98 1897.27 1809.82 1898.36 1888.04 1897.02 1893.04 1898.98 Dec 10 Dec 9 Dec 6 1877.65 1919.80 FTSE Eurotrack 200 Baro valus 1000 (2019/12); Hightley 100 - 186253; 20 © FTSE julycoplique Lizated 1996. All signic restrict.

Carrefour came off FFr30 merger with Hoechst's specito FFr3.150. Its deal is seen as clearing the way for a link between Casino and the top retailer, Promodes, which dipped FFr24 at

AMSTERDAM came off bonds and a bad day for the dollar against the guilder. The latter sparked heavy selling of international

in the firing line, tumbling F12.40 or 3.5 per cent to Fl 66.20 in volume of 5.2m Royal Dutch; off Fl 8.10 to Pl.283, also suffered from weaker North Sea oil prices which dipped below \$23 a

barrel. Unilever retreated Fl 3.80 to Fl 286.60. At the close, the AEX session following the early index was off 11.77 or 1.89 per cent at 610.56.

-ZURICH closed above its

HONE 1007 - 1651.69 200 - 1891.72. † 特定 further response to the

Dec 5

1883,77

ality chemicals operation. The SMI index sank to a low of 3,817.3, but recovered to close 27.8 weaker at 3,857.6 after the day's US inflation data sent mixed messages and the Dow's steeply, buffeted by weak early losses proved less than some investors had feared.

Clariant jumped SFr64 to SFr572 as analysts calculated the fair value for the shares stocks. Philips, which has a at between SFr600 and big US shareholder base, was SFr700. One dealer said that SFr700. One dealer said that part of the rise was attributable to banks covering Clariant options, while small investors were also active

> The Novartis partners were weak, in spite of rumours that the US Federal Trade Commission would give its approval to the

merger today.
Ciba dropped SFr16 to SFr1.606 and Sandoz fell round of pulp price increases SFr15 to SFr1,520.

MILAN lacked impetus of its own and the Comit index gave up 9.29 to 643.09 as the market succumbed to the malaise enveloping neighbouring markets.

De Benedetti group companies remained in focus as speculation about stakebuilding by the Monacobased businessman, Mr Luigi Giribaldi, prompted further early demand. By the close, however, Cir was L42.7 down at L957.3, but Cofide limited its loss to L1.4 at L879.8 and Olivetti was just L2.4 easier

at L517.2 Fiat bucked the trend to rise L10 to L4.313, apparently having found strong technical support at about 14,800. STOCKHOLM featured a

drop of SKr9.50 to SKr329.50 in Astra A as rumours of a Roche bid subsided. Investor, which said it had not been contacted by Roche about its Astra stake, fell SKr4 to SKr281 as the Affars. världen General index closed 41.9 lower at 2,311.4. HELSINKI took the worst

tumble in Europe, the Hex index losing 57.74 or 220 recent at 2.434.25 Forestries were weaker still. The sector fell 3.5 per tioned whether the current

Cochrane, Michael Morgan and

would stick.

lows for the day, while Clar A SFr450 plunge to iant added to Tuesday's 13.4 SFr4.800 in Esec, the high trols the French Cora superfor the lower dollar, BMW DM30.70 at market chain. The move per cent advance with technology group, was attri-DM1,040.30. But Porsche sparked a FFr4.80 bounce to

ing in TOKYO.

resisted the downward slide Gwen Robinson.

and electricals.

Volume eased from 337m shares to an estimated 321m. Declines led advances by 795 to 257, with 179 unchanged. The Topix index of all firstsection stocks fell 18.09 to 1,524.90 and the capitalweighted Nikkei 300 by 3.68

in London, the ISE/Nikkei 50 index fell 11.26 to 1448.57. Oriental Land, listed directly on the TSE first section, peaked at Y9,030 before closing at Y8,800 in the day's heaviest volume of 8.4m shares. The flotation price

Other leisure groups bene-fited from the interest in Oriental Land. Tokyo Dome, one of Japan's largest entertainment and sporting venues, rose Y30 to Y2,410. In stark contrast. Keisei

Electric Railway, a popular speculative stock and a leading shareholder in Oriental Land, retreated Y72 to Y860, a new low for the year.

recent sessions, although it fell only Y3,000 to Y909,000. Some general contractors, however, broke out of their losing streak, with Shimizu gaining Y15 to Y905 and

Nikkei drops on futures-related selling index ended off 2.5 at 2,359.3. Nishimatsu Construction up Zealand's widely acclaimed rises in recent weeks.

ASIA PACIFIC

A sharo overnight decline in Chicago markets on reports that Japanese investors might reduce their holdings in the US Treasury bond market prompted heavy sell-

Local trading was dominated by the listing debut of Oriental Land, operator of Tokyo Disneyland, Which of the broad market, writes

The Nikkei 225 average fell 253.74 to 20,568.38, after moving between 20,466.66 and 20.755.74 Domestic and foreign investors took profits on solid recent blue-chip gains, particularly among pharmaceuticals, carmakers

to 288.70.

was Y8,050.

NTT lost its momentum of

economic policies broadly In Osaka, the OSE average fell 218.44 to 20,887.57 in vol-

HONG KONG reversed course during afternoon WELLINGTON shot ahead trade to close sharply down. in some of the heaviest volas the market fell prey to ume of the year following worries about inflation and the negative trends in tion government. The 40 capfutures markets. The Hang Seng index fell 152.86 to 13,189.60 after ital index advanced 19.96 to

2.377.53 with rises leading swinging from a high of At NZ\$97.6m, turnover was 13,473.26 in the morning to a described as unusually high low of 13,125.93 at mid-afterwith a good two-way market noon. Turnover was a very developing in most leading stocks. NZ Telecom gained 8 heavy HK\$11.6bn. Finance shares led the cents to NZ\$7.38 on turnover

market down. HSBC fell HK\$2.50 to HK\$159.

China's B shares slid on

SHANGHAI'S B index fell 3.649 or 4.6 per cent to 80.685 while SHENZHEN'S B index gave up 7.42 or 3.8 per cent

SEOUL continued to be the market and the compos- 32.38 or 1.04 per cent to ite index finished 1.85 higher 3,160.76. Blue-chips led the at 704.68.

KorAm Bank rose Won600 to Won8,160 on speculation that it could become the tar-and of a hid hattle after Sam
DHAKA, closed on Sunday in the bank.

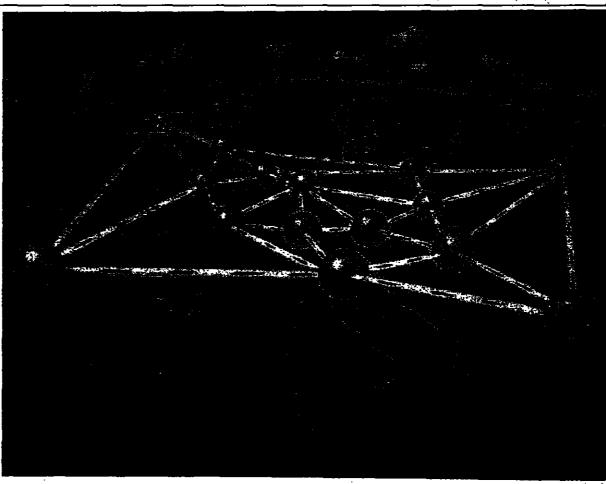
profit-taking after their huge per cent. The All Ordinaries added 18.44 to 2637.84.

Banks suffered extensive profit-taking. National Australia Bank fell 17 cents to A\$15.08 and Westpac came off 7 cents to A\$7.25.

MANILA rose steadily for supported by hopes of gov- the second day running with ernment measures to boost the composite index gaining rally with Ayala Land up 1 peso to 30 pesos and San Miguel B rising 4 pesos to

10.5

sung Group raised its stake and Monday by investors' protests against a planned SYDNEY gave up early government credit squeeze, gains after the central bank continued to gain ground. cut its cash rate from 6.5 to 6 The all-share orice index



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Austria (24) Belgium (27) Brazil (28)... Carada (116) France (93) Japan (480) Malaysia (107) .. New Zealand (15) Norway (35) -0.3 273.18 218.17 245.88 304.38 ---0.3 249.82 189.42 224.85 234.09 0.7 207.19 165.38 186.48 200.18 1.1 319.09 254.71 287.20 313.81 0.7 140.51 112.00 126.29 113.07 0.7 168.08 134.17 151.29 145.92 ---0.3 267.12 213.22 240.42 296.74 0.8 184.93 147.62 166.45 175.37 1.0 261.17 224.44 253.07 269.67 0.7 169.98 135.68 152.99 151.28 0.2 188.63 168.72 176.96 160.63 0.1 243.62 194.47 219.27 256.46 1.97 3(5-22 274.67 218.63 247.00 305.22 307.62 243.34 252.17

1.98 279.05 251.12 199.86 225.82 234.66 291.50 222.53 228.69

2.89 229.29 206.35 164.24 185.56 189.21 234.56 194.31 185.29

1.99 351.56 316.38 251.83 284.50 310.83 355.51 261.13 277.32

1.26 155.20 138.66 111.17 125.58 112.22 177.01 153.96 182.76

2.10 185.98 167.35 133.21 150.48 145.03 191.51 175.04 178.21

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CAMBRIDGE

Information technology was behind the last period of rapid growth which came to a halt with recession. The latest telecommunications and biotechnology-led surge appears more firmly based, writes Richard Adams

A second phenomenon in Fenland

ambridge is going through a period of rapid economic growth - a product of an extraordinary level of activity in instead, the "phenomenon" came to refer to the inability of city's high-tech industry to capitalise on its undoubted city. science and technology within the city and its region.

But is it really a boom, or a bubble? Cambridge residents could be excused for being sceptical about the durability of a surge built upon high technology, because the city has seen it cations have supplanted computall before. The Cambridge economy enjoyed high levels of growth throughout the 1980s, as a result of the strength of new technology and service industries

Rapid growth in the number of small and medium-sized businesses helped unemployment fall below the national average, as job growth rose annually by about 3 per cent. By the end of 1989, the monthly total of unfilled vacancies reported by the Cambridge Jobcentre was 1,200.

But a year later, in December 1990, unfilled vacancies had plummeted to about 200 as the downturn in the UK economy took its toll and many of Cambridge's promising high technology companies shrunk, failed, or were taken over.

The "Cambridge phenomenon" of the 1980s was generated by the performance of companies working on computers and semiconductors, such as Acorn and Sinclair, together with the research of Cambridge University. At the time it seemed that one or more high technology companies in the local companies would grow into region, with a total of nearly world-beating, multinational £170m, and is making investcompanies in the high tech sec- ments in 160 independent busi-

expertise in the face of international competition.

Cambridge and the region around it are now going through another surge, again fuelled by high-tech industries. This time, biotechnology and telecommuniing as the fashionable sectors.

Cambridge has the highest concentration of emerging biotech companies in Europe. A report this year by consultants. Ernst & Young, claimed the UK had 93 per cent of the European Union's biotechnology companies. East Anglia is the UK's leading region for biotech activity, and 80 per cent of those companies are situated in Cambridge. Readers of the companies pages of the FT will know many of these, including Chiroscience, Peptide Therapeutics, Ethical Pharmaceuticals.

Pharmagene, and Axis Genetics. Similarly, Cambridge's heavy concentration in information technology firms means names like UUNet-Pipex, Ionica, Vocalis, CADCentre and others are becoming familiar.

But will Cambridge's second phenomenon prove more durable than its first? Mr Jim Martin, director of the East Anglia office of 3i, the investment capital group, thinks it will be. 3i is backing a large number of young



"The potential in this area really is outstanding," said Mr Martin. "It is just wonderful visiting some of these companies and seeing what is going on."

The difference this time, according to Mr Martin, is that companies have become marketorientated rather than productled, as was the case previously.

"These companies can now attract high quality management, and they are much more market focused. They recognise the need for successful technology busies to take a global approach to their markets," Mr Martin

"The Cambridge technology phenomenon is probably the nearest thing we have in Europe to what has happened in Silicon Valley in the US," he said. Indeed, some participants call the area Silicon Fen.

A recent report* on the telecommunications industry in Cambridge by Analysys Publications, said the new Cambridge telecoms companies all demonstrated an understanding that, without markets, their products were worth nothing.

"This is in stark contrast to the stubborn belief of many of the first generation companies that, because their technology was the best, it would sell itself," it said.

report quotes Mr Robin Saxby, the chief executive of Advanced Risc Machines (Arm), as believing that the city's industries are still more concerned with technology than with markets, "It's no good inventing the damn stuff if we just give it away to the rest of the world," Mr Saxby says. He describes the city and its inhabit-

ants as having "the lowest

wealth over brain power ratio in

the world". The growth of the second Cambridge phenomenon has given a big boost to employment in the city and its sub-region. In the 1993 annual census of employment, private sector research and development - the sector that includes most high technology firms - accounted for only 3.2 per cent of employment in Cambridge, a total of 2,400 jobs out of 76,000. By 1996, Cambridge city council estimated that research and development in the high

technology sector accounted for

19,000 jobs in 600 firms within the

region. Half of those are in Cambridge city itself. With growth in such a specialised area, there is a danger the second phenomenon could be cut short by a skills shortage. But Mr David Best, a director of the Bioscience Innovation Centre, which is developing the UK's first pur-

argues that is not likely to happen within the next few years. "We don't really have a skills shortage at the moment. We're lucky that because of the first Cambridge phenomenon, lots of high tech people are here, or are willing to come here," Mr Best

But for all the excitement and activity surrounding the high technology sector, Cambridge's principal employment sector remains education. In the 1993 employment census, education accounted for 17,000 jobs almost 23 per cent of total employment. That includes research staff based at the unisupport staff in colleges and

Cambridge is also an important shopping centre, with a potential out the region. catchment of shoppers that includes tourists, students and the surrounding region. The retail sector employs nine per cent of the local workforce.

The region's growth has caused hour traffic congestion in the centre of Cambridge. Meanwhile, the demand for housing continues to outstrip supply, causing nomenon, editor Susan Ablett. accommodation prices to rise

Mr Christopher Carey, residen-But not everyone agrees. The pose-built business incubator, tial partner for Bidwells property 341317.

agents in Cambridge, says that activity this year has been significantly up on 1995.

Bidwells estimate that, within the last year, prices have risen by around 5-7 per cent for properties worth more than £250,000, and by up to 12 per cent for larger properties. Part of the rise is attributed to higher house prices in London, as buyers seek to take advantage of the fast transport links between Cambridge and the capital

Since the late 1980s, Cambridge City Council has been concerned to limit the pressures on the centre of the city. After a study with the University's Department of versity, as well as teachers and Land Economy, the council decided to encourage the dispersal of industry and housing to the north of the city and through-

That aim has been partly successful, as more development takes place outside the city council's area. Centres such as Peterborough and Kly are feeling the effects. In the future "the Camproblems, including heavy rush bridge phenomenon" may come to be more rightly known as "the East Anglia phenomenon". *The Cambridge Telecoms Phe-

> Analysys Publications, 1st Floor, Quayside, Cambridge CB5 8AB. Telephone 01223 341300, fax 01233

IN THIS SURVEY

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An enviable record for start-ups

Consultancies were quick to recognise the potential in local research activity

From research into genital warts to developing internet company in 1992, taking a 28 worms. a swarm of high per cent stake in the comtechnology companies in Cambridge is helping make the city the envy of Europe. The concentration of

start-up companies, often service provider in the world based around scientific research, has been the key to the region's success in attracting business and

In the mid-1990s, the spotlight is on the biotechnology industry, just as in the 1970s and 1980s it was Cambridge's success in computers and telecommunications that led to what was called "the Cambridge phenomenon".

Mr Jim Martin, the director of 3i Cambridge, arrived in time to experience the end of Cambridge's last technological surge, which was killed in part by the recession of the early 1990s. He attributes the commercial success of high-tech industries in the area to a number of research and design consultancies: Cambridge Consultants, formed in 1960, the Technology Partnership, and the Generics Group, among

These consultancies Park. helped recognise national and international markets and the potential of the research activity in the Cambridge region.

"A lot of the new businesses in Cambridge have started from these consultancies," Mr Martin said.

While the latest wave of Cambridge's high-tech work has been biotechnology, telecommunications and information technology - founda-"phenomenon" - are still important contributors.

Mr Martin recalls an Internet start-up company called Unipalm, founded in 1986, approaching 3i in 1991 for investment "Even then, no one had heard of this Inter-net concept," Mr Martin

3i first invested in the pany for £1m. When Unipalm was floated on the London Stock Exchange in 1994. it became the first Internet to go public.

Today, the company - now called UUnet Pipex after its merger with US-based UUnet - is Britain's largest provider of Internet services to companies, part of a telecommunications conglomerate and in the midst of being

The European headquarters for UUnet Pipex is still

Recent growth in high-tech has been focused in biotechnology and related industries

at the Cambridge Science Acorn Computers.

Despite its location, in one respect Unipalm was unusual for a Cambridge high technology company: it had no links to the univer-

But Cambridge Neurodynamics, based at Cambridge University, has recently started a company called AutoNomy that combines the biotechnology and information technology indus-

AutoNomy has designed Internet tools that use technology based on neural net- the Cambridge network of

In 1970

Trinity College created

The Cambridge Science Park

to cater for science-based design, manufacturing and research companies

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The Cambridge Science Park

founded by Trinity College

The Cambridge Science Park is managed by Bidwells



work pattern recognition, emulating the way a human brain works. AutoNomy's software includes an intelligent agent, a variation on an Internet "worm", a program that can be told what to look for and come back with a

It studies ordinary sentences and picks the important parts, before setting off on a search that runs in the background of a computer. What is different about AutoNomy's Guardian Agent program is that it learns as it goes and remembers the

results of previous searches. Another agent can sift through incoming e-mail, filter out circulars and junk mail, and fax urgent messages to the user's home or hotel room. Another of the established

companies from the first wave of the phenomenon is Acorn pioneered educa-

tional computing in the UK with BBC Micro, and it now plans to become one of the first companies to sell a "network computer" - a simple, cheap computer, designed to surf the Internet. It won a contract in Janu-

ary from Oracle, the largest computer software group in the world after Microsoft, to design a family of network computers costing around

The contract demonstrates

the positive advantages of

firms. Acorn's opportunity came in part from its relationship with its sister com-Advanced Risc Machines (Arm), and its experience with interactive television trials, also in the Cambridge area.

Arm, in which both Acorn and Apple Computer have a large stake, designed a range of advanced microprocessor chips for interactive television devices, and can include many of the functions of a network computer on a single chip.

But the focus of recent high-tech growth in the region has been in biotechnology and related industries. The biggest of these success stories is that of Chi-Chiroscience was founded

in 1992 by Mr Chris Evans, a leading figure in the biotechnology industry in the UK, to specialise in developing pure drugs from "chiral"

Earlier this year it raised £40m through a share placement, giving it a total market capitalisation of around

Chiroscience's main drugs in development are an enzyme-blocking inhibitor for arthritis, which is going through clinical trials, levobupivacaine, a local anaesthetic which has produced good results in more advanced trials, and various

Analysts say that the

111.27



The purchase meant that Mr Bill Gates, founder of Microsoft, took a small stake in the Cambridge company, having owned a 14 per cent stake in Darwin.

to show a profit, and with The speedy success of Chionly 200 employees in the roscience is unusual in an Chiroscience went internaindustry where drugs can take years to develop and when it bought eain regulatory approval. It another biotech firm, Darwin Molecular, based in the can take years before investors begin to make a return US, to increase its number of

Some companies try to develop drugs and profits more quickly by making alliances with larger firms. For example, Cambridge's Cantab Pharmaceuticals has joined with pharmaceuticals giant SmithKline Beecham to develop and market Can-

tab's new vaccine for genital warts. Under the terms of the agreement Cantab could receive up to £24m, plus roy-

But there are signs that, even in Cambridge, the growth in biotech is not infi-

in July, Cambrio, a fledgling Cambridge bioscience company, abandoned its planned stock market flotation in the face of lack of interest from investors, which the company blamed on a general fall in biotechnology company share

drugs in development.

arthritis inhibitor could be

worth £600m, while levobupi-

vacaine could win a market

worth up to £60m. Not bad

for a company that has yet

Huge network of friends

'Cambridge precocity' helped form Ionica's 'outrageous'

challenge to BT Nigel Playford makes the decision to start lonica, his fledgling

company, in Cambridge sound totally natural. "I had a house here and

it's an attractive place," he Yet he also says that without the network of friends in the city and its unique atmosphere, Ionica would not have been able to

radio telephone technology Telecommunications in the residential market. Mr Playford founded the company five years ago by working in his living room for six months. "In reality, I was getting help from a huge network of friends. all in Cambridge and covering

all commercial and

capitalise on his "pretty outrageous" idea of using

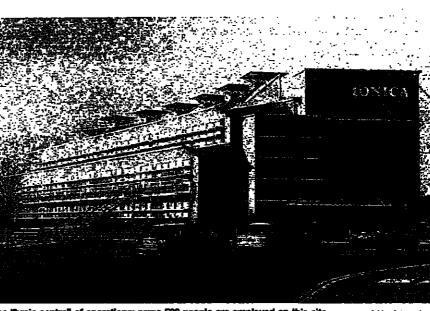
scientific disciplines." he The network of friends was chiefly a result of his seven vears at PA Technology, a consultancy which focused on telecommunications and electronics and which has been described as one of the

"original" Cambridge phenomenon companies When Mr Playford joined 23, it was full of other bright young things who were put in charge of a variety of industrial projects, many of them international, and which included the design of the

Plessey payphones. Mr Playford describes the atmosphere of the place as having "no secrets", with lots of open discussions.

He eventually became director of the group's North America subsidiary but left in 1986, along with frustrated by the company's refusal to increase share ownership among

Among Mr Playford's colleagues at PA were the five founding members of



The "brain centre" of operations: some 500 people are employed on this site

Symbionics, a design service company set up in the late 1980s. When Ionica employed just four people and was going through the rigmarole of winning an operating licence from the Department of Trade and Industry, Symbionics provided seed funding and

office space. It now has about 5 per cent of the company, which could be listed on the stock exchange next year.

Mr Graham Norgett, Symbionics' group marketing manager, describes the "real strength of Silicon Fen" as the fact that "we all know each other fairly well here and tend to network fairly easily". The two compani have offices close together at the St John's Innovation

Mr Playford mentions a host of other contacts which he believes have helped give the city a "Cambridge has precocity," he says. "It has

a group of people who came logether in the last 20 or 30 ers and who have this kind of why-shouldn't we do this attitude." This precocity helped form l'onica's

At times, the story of the Cambridge phenomenon as

the "sleepy behaviour" of

told by Mr Playford can sound like a scientific version of Peter's Friends, the film about continuing relationshins between a group of university

Yet he was born in Leeds

and studied electronics at Imperial College, London. Apart from adding prestige to the name of the phenomenon, the university's most important contribution to date for Ionica was the decision of

St John's college to build an innovation centre. Mr Playford credits the college's "far-sighted bursar, who was willing to take a risk on a company with 10 people and not much more money"

In 1992. The college spent £7m building the site, which now houses a number of as Ionica. Mr Playford was particularly pleased that the group was involved in His office is open plan with a central atrium which

increases the light. Some 500 people are currently employed in this "brain centre" of louica's operations. A further 500 contract staff are employed as engineers or maintenance workers around the country.

Although the preliminary investment banking work

has been done, Mr Playford still has reservations about flotation and the vagaries of the market. However, while he is

contemplating the alternatives, the group is "more likely than not" to float next year. Two regional electricity of Ionica, while the management and employee own 16 per cent and investment houses some 20 per cent.

The group is forecast to be serving some 1m UK customers by just after the turn of the century, when it is also forecast to become profitable for the first time.

Having recently appointed an international manager of operations, the company is also keen to start serving global customers, especially in emerging markets where the high cost of building fixed telecommunications networks has left many services tnadequate.

While Mr Playford envisages the need to set up a London office, he cannot imagine moving its beadquarters from Cambridge

"People like living here," he says. "It would be very difficult to persuade them

Jane Martinson

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FINANCIAL TIMES THURSDAY DECEMBER 12 1996

CAMBRIDGE 3

Gambridge Cable

A pioneer in its field

Mr Brian Gillinder. information technology teacher at The Netherhall School in Cambridge, presses a button on a television remote control set and brings up video footage of a recent school field trip

Nothing too unusual about that, except Mr Cillinder has accessed the field trip tape through a multimedia system supplied by the Cambridge Cable interactive TV trial. reachers at The Netherhall School, along with the other 108 schools and homes participating in the trial, are able to call up the field trip on their TV screens for use whenever they want.

The field trip is one example of the material the Netherhall School is producing and putting on to the interactive network. Participants in the trial are also being offered a choice of interactive services by companies such as Tesco and the BBC. These include

video-on-demand, news and documentaries, education programmes, home shopping and banking, and

s. "It is a very useful teaching tool for us," says Mr Gillinder. "Using the interactive technology we are able to manipulate the video we call up in a very sophisticated way, making it ideal for the stop-start and go-backwards you need to do when teaching."

The Cambridge trial is one of a few in the UK attempting to pioneer multimedia in education and entertainment. The Cambridge trial began in September 1994 and is operated by a consortium involving Cambridge Cable, ICL and Online Media, owned by Olivetti through Acorn Computers. The consortium hopes the trial will provide a valuable insight into what interactive service consumers want delivered

enable participants in the to their homes, schools and trial to access parts of the RRC television news service The Cambridge trial is through the BBC's web site.

Clicking on to a news item on the BBC web site should trigger the playing of a television report of the same news item. "The Internet application is fast becoming the key element of the trial," says Mike Prymaka, director of business telecoms at Cambridge Cable.

By the third quarter of next year Cambridge Cable hopes to have developed its multimedia technology sufficiently to be able to expand the trial. Mr Prymaka says expansion of the trial is to be based on network computers, which instead of running as stand-alone computers like PCs, plug into a network

and use the Internet. "It is a long way off being a core business for us," Mr Prymaka says. "But as we move into the next stage, more people in Cambridge will be participating and it could become extremely

William Lewis

PROFILE Acom Computers

Multimedia ambitions

Education has played a pivotal part in the history of Acorn Computer, the Cambridge-based computer group in which Olivetti of Italy holds a substantial stake. Chris Curry and Hermann Hauser, who were both working in Cambridge at the time, founded the company in 1978 to exploit the university's growing reputation for computer expertise which was at the time attracting a number of

The two entrepreneurs formed Acorn to market computer products and in 1980 the first commercial micro-computer, the Atom, was launched in kit form. The Atom was one of the first home computers affordable to average income families and provided Acorn with an early lesson in addressing the mass market.

high-tech companies to the

The company's biggest break came, however, in 1981 when it won the contract to design and manufacture the BBC

become the most popular computer in UK schools. The BBC micro provided many with their first experience of computers and is still regarded with affection by users who have long since moved on to less cumbersome models. At the time, the BBC Micro was twice as fast as its nearest rivals and cheaper. It also offered more sophisticated

As production increased, the BBC Micro's sales expanded to include higher education and research, small businesses and homes – including games and teaching products. Meeting classroom also provided Acorn with the expertise it was later to use in designing computer products for a generation of Internet users.

graphics.

"Acorn has traditionally had equipment in the harshest environment of any desktop computer which is schools," says Mr Kevin Coleman, Acorn

"In a school you get 30 different users, changing every hour, who don't own the equipment, don't have any responsibility for it, and want to hit the machine. We had expertise in producing low cost products, displayed on poor quality screens or televisions. Which had to be robust." The company has been reorganised over the past few years to reduce lependence on sales of

director of communications.

traditional computer hardware and to concentrate on the levelopment and licensing of intellectual property. Information technology solutions are now marketed to UK schools through Xemplar Education, a joint venture with its former rival Apple. Acorn sees interactive

multimedia - from the Internet to digital television - as one of its most important growth areas and, together with companies including Anglia Television, the BBC NatWest Bank, IPC

helped found the Cambridge interactive television trial in 1994.

The scheme tests the technical and commercial viability of supplying services through the information superhighway directly to homes and business. Acorn believes the experience gained through the trial has helped it to win contracts to supply set-top box technology for interactive television schemes being developed throughout the world.

The television trial also helped it to secure an agreement with Oracle Corporation to develop and license a range of low-cost network computing designs to make it easier for ordinary people to use the Internet - whether at home in their office or a hotel

Mr Coleman says many customers are now coming to Acorn with proposals connected with the Internet

Midge Gillies

Mature industries: by Jane Martinson

Deep-rooted histories

Manufacturing and engineering categories now embrace smaller companies

Cambridge's push to become a "technopolis" is based on its rapidly expanding high technology sector, which can leave the local industries based on older technologies looking like a

Yet while traditional manufacturing and engineering employment has declined in recent years there are still several larger companies deep-rooted in the university town.

While the city is domiinclude the university and

Older, larger companies have been forced to consolidate or cut jobs in the past 10 years

estimates that about 18 per cent of the 109,590 working population of the city and its immediate environs are employed in manufacturing and engineering industries. Ms Jill Tuffnell, leader of

the county council's economic research group, says that while the percentage has not changed significantly since the early 1980s. the figures hide a change in the structure of local employment.

The manufacturing and engineering categories now embrace smaller companies or those which have sprung up as a response to new technological developments such as pharmaceutical or software manufacturers and new working practices, such

The older, larger compa- school-type bench micronies have typically been forced to consolidate or cut

jobs in the past 10 years.
"Historically, the local economy was reliant on a few big companies," says Ms Tuffnell. "Now it's reliant on significantly smaller

While Cambridge is not unique in the UK in this decline of larger industries, the growth of smaller hightech groups has, perhaps, made the shift more pronounced. The city and its immediate environs have long attracted each new wave of high technology companies, but the few big with histories which are science-based companies - such as Marshall. Cambridge University Press, Phillips Business Communinated by service jobs, which cations and Leica - are down from a peak of about than the smaller newcom-

> Mr Walter Herriott, managing director of St John's Innovation Centre, one of the region's many high-tech parks, says that 25,000 jobs have been created in the new fields in the past 15 years. The total turnover for these companies is now between £1.5bn and £2bn, he says. "From a national point of view, what we should be doing is encouraging new business to grow in this fer-

tile soil," he adds. Instrumentation is one example of a narrowly defined sector where there is evidence of declining employment. Countywide figures suggest employment has dropped from more than 4,000 in 1981 to an estimated

3,200 this year. The changing nature of this business is exemplified by Leica, the instrumentation company based in Cambridge and formed by the 1990 merger of Swiss company Wild Leitz and Cam-

bridge Instruments. The latter was founded before the end of the last century by Horace Darwin, the grandson of Charles Darwin. It developed into a high-tech business with products ranging from scopes to high resolution scanning electron microscopes. It was then one of several high-tech companies made part of the Labour government's National Enterprise Board.

using fibre optic cables to the kerb and coaxial copper

cable from there to the user

A two megabits per second

transfer mode) link enables

seconds. These are accessed

images to be received in

through a set-top box

similar to a small video

recorder. ATM is a fast

"packet-switched" tech-

nology which allows data of

many kinds - voice, images

or full motion video - to be

"packets", or bundles, each

of which has a fixed length.

regularly, and that it is now

viewing interaction with the

offered web browser tools to

For example, this should

enable them to download

video from the Internet.

Cambridge Cable says

services for users change

internet as one of the

system's key attractions

Participants are being

sent on request across a

fibre optic cable in

ATM (asynchronous

But by the time it was merged with Wild Leitz, part of a private Swiss company, Cambridge Instruments had won the dubious distinction of being one of the market's worst-performing issues since its 1987 flotation. Hit by fears in the semi-conductor market during the stock market crash. its share price had col-

The newly merged company, which went private in 1991, was restructured. It now employs 350 people. growing much more slowly almost 800, having spun off

> Strong local links are evident at Marshall, the vehicle and aerospace group

entered into joint ventures with others.

Mr Max Pocock, managing director, says many jobs went because of the disposals and because the company changed its working practices. It now farms out raw materials for basic manufacturing to both local companies and foreign ones. for example.

Despite the changes, the company feels deeply rooted to the town. Almost half of its employees are university graduates, although not all of these are from Cambridge. The company also benefits from research and

working opportunities. "I think it is very much a partnership. We think we are important to Cambridge, but equally Cambridge is

very important to us." says Mr Pocock.

Strong local links are evident at Marshall, the privately-owned vehicle and aerospace group which was set up in Cambridge 88 years ago. The group employs 3,200 people. While this level has been roughly stable since the recession, a decline in the military sector has seen the total employed in the group's core aerospace division fall from more than 2,000 to about 1,500.

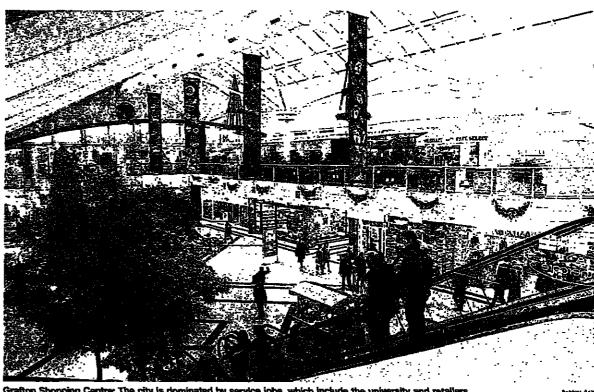
Mr Michael Marshall, company chairman and chief executive and the founder's grandson, says that throughout "difficult turbulent" times for the industry it has continued to take on between 25 and 30 apprentices each year. The group's dominance of

local employment opports nities has changed significantly in the past 40 years or so. "When we first started this business, we were the only technology company in the area," says Mr Marshall, "Otherwise, employment depended on Chivers Jams or the university, or working for the local council. Now there is much greater capacity in smaller, high-tech busi-

This view is echoed by Mr Guy Mills, the county council's economic development officer. "While there used to be maybe 12-20 major employers in the area, now there are hundreds."

In spite of their decline, he believes the value of the larger, older companies must not be understated. While they employ a significant proportion of graduates, their value to the economy also depends on their usefulness in employing people with a wide range of skill levels.

"These companies are still significant employers in the area and we are keen to retain employment in these kind of sectors," he says. "It's not just people with PhDs who are looking for work here.



Grafton Shopping Centre: The city is dominated by service jobs, which include the university and retailer;

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FT Surveys

■ Public and private partnerships: by Motoko Rich

inated effort needed

Local civic and business leaders are planning to secure future investment

Public and private sector been demonstrating a rather unusual level of humility lately.

"There is a recognition in this area that we did quite well in the late 1980s attracting business, but we cannot sit back on our laurels," says Mr Guy Mills, economic development officer at the Cambridge County Council. Mr Nicholas Russell, owner of Larman Printers and chairman of the Cam-

bridge small business group. 15 years. agrees. "There was a feeling for a while that Cambridge is such a special place that we did not need any form of planning, partnership or

help, but we do," he says. In order to assure Cambridge's leadership as a hub for high-tech and science-intensive industries, local civic and business leaders have decided to band together to organise the prototype for a ment agency - covering attract significant investregional development agency which would co-ordinate the Norfolk, Hertfordshire,

efforts of public agencies and private business to attract investment not only into the city of Cambridge, but into the south Cambridgeshire region. Last month, the first meet-

ing of the Economic Partnership for Southern and Cenleaders in Cambridge have tral Cambridgeshire was held. Representatives from the Cambridge City council, district councils in South Cambridgeshire, East Cambridgeshire and Huntingdonshire, the County council, the Confederation of British Industry, CambsTec - the local training and enterprise agency - the Government Office Eastern Region and local business leaders gathered to discuss a planning strategy for the development of the region over the next

"We are getting to the stage where we feel there needs to be a more formal umbrella organisation to coordinate various activities in the public and private sectors." said Mr Mills.

Efforts within the region to pull together the activities of the public and private sector are suddenly flowering as an Eastern Region invest-Cambridgeshire. Suffolk,

Essex and Bedfordlished as the first step towards the establishment of a regional development

rganisation. We are the only region other than the south-east which does not have a regional development organ-

> Efforts to attract significant investment into the region are fragmented

isation," says Mr Tim Cracknell, economic development officer at Cambridge City council

on investment opportunities. We do not want to get outstripped by other regions, and a regional development agency will help ensure that we are one of the more buoyant economies."

At the moment efforts to ment into the region are fragmented between several

shire - has also been estab- the councils and various trade organisations.

"Everybody is chasing a small number of employers," says Mr Cracknell. The umbrella organisations will provide single points of contact for potential investors who will have inquiries about infrastructure, training and other local facili-

For Cambridge, a regional development agency is important because it will allow it to contain growth within the city limits.

Because the city itself is quite small - its population is only 110,000 - and the streets are old, allowing heavy industry into the city could exacerbate already difficult traffic conditions.

"There is not room to build large scale manufacturing in Cambridge, and if we allowed companies to build here, they would have to recruit people from outlying areas, which would south cause congestion in the medieval streets," says Mr Cracknell.

"More than two-thirds of the workforce in Cambridge already comes in from outside so we have serious parking and congestion prob-



Because the city is quite small, and the streets are old, large aiready difficult traffic conditions and cause cond

However, the city council would like to espouse a policy of "dispersal", in which companies interested in coming into the area would be encouraged to stay within the greater central and Cambridgeshire

region. With a regional development agency, it would be easier for the city council to refer investment applicants to other areas with higher unemployment and better infrastructure.

when Wellcome, the pharma-ceutical company taken over by Glaxo, approached Cambridge city council about a site, it was told the city could not sustain the facil-

"Luckily the company decided to build its site in south Cambridgeshire and provided 800 jobs," says Mr Russell. "But there should have been a mechanism by which they could be told that although the city is crowded they might want to consider elsewhere in the

region. That is a company that might have taken its work offshore because we had repuffed them."

in the formation of a development agency which would attract inward investment into the region, the organisers are targeting biotechnology, call centres for industries moving into telemarketing, distribution companies and businesses from the food industry.

Mr Alan Maltpress, chief executive of CambsTec, said the Economic Partnership

for Southern and Central Cambridgeshire and the embryonic Eastern Region investment agency would be discussing the issues which regions trying to attract inward investment typically must address.

"Inevitably, we will come to the usual classic issues: is the transport infrastructure good enough, are the business parks in the right place. do we have the right skills?" said Mr Maltpress.

"Now we have to come together to discuss these issues because public planners traditionally have not talked enough to business leaders."

Mr John Peace, president of the Cambridge and Dis-trict Chamber of Commerce and chief executive of J&S Technical Services, a national sulphur trader, said he was initially sceptical about the forums bringing together public and private leaders.

"Initially, I thought it would be another layer of organistion that would confuse even further," said Mr

"But having been to the inaugural meeting, I think it is a very healthy thing because it means we will have a vehicle for lobbying for inward investment rather than separate organisations making seperate

Property: by Graham Bowley

Shortage of office space is looming

Commercial prices have started the climb back to levels last seen in the 1980s

Cambridge is experiencing a property prices which is property investors alike. It is ment, and 200,000 square feet in the words of Mr Patrick for leisure facilities. It would McMahon, head of invest-include homes, a hotel, and ment at Bidwells, the property surveyor, "one of the areas in the country which s performing its socks off". According to Mr Martin County Council, there was property in the city during

reached a peak of about £24 per square foot in the late 1980s, plummetted to around £8 per square feet by 1993. "But now available office space is diminishing very rapidly, especially industrial space, and the pressures are

recurring," said Mr Cooper. These pressures, caused by the city centre's tight planning constraints and the resilient growth of the city's economy, mean that prices square foot. "We are getting back to where we were prerecession" said Mr Cooper. Bidwells forecasts that prices will reach £20 by 1999.

The return to pre-recession levels is crucial if developers are to be encouraged to dip their toes back into the property market. According to Mr Jonathan Burroughs at Bidwells: "We will now start to see speculative office developments for the first time in well over five

The shortage of industrial space is proving especially acute. The county council is encouraging companies to look at alternative locations outside Cambridge, in particular in nearby towns such as Huntingdon, Ely and Peterborough. Some companies would

prefer to remain in the city centre, which offers an attractive location, coupled with shops and other amenities. Companies also fear that they might lose staff if they move out of the centre. But for many businesses, easier access, good car parking facilities and the space

important and they have chosen to locate or relocate outside the city. The shortage of space within the centre has encouraged the development of a number of thriving business parks on the fringes of the city. Vision Park on the northern edge of Cambridge

covers 11 acres of land, vir-

tually all of which is now

full.

to grow have become more

A large new business park has been proposed, again on the northern fringe of the city. Two competing bids, one by retailers, Sainsbury's, and the second by Anglian Water and Railtrack, have heen nut forward

Sainsbury's proposal is for a relatively small, mainly retail-based park, while Rail-track and Anglian Water's plan is for a larger initiative with leisure facilities and space for industry and hightech companies. The latter plan would cover 167 acres, recovery in commercial offer 300,000 square feet of shop space, 215,000 square exciting office-owners and feet for business develop-

include homes, a hotel, and parking and transport links. Cambridge Science park, which has been developed covers 130 acres of land and Cooper at Cambridgeshire has a total of 1.05m sq feet of office space built at present. oversupply of commercial With more than 70 companies, there are more than the recession earlier this 3,000 people employed on the decade. Prices which park, 1,200 of which are employed by the eight US companies present. According to the county council, 10 acres are left for development "in the near future".

On the southern side of the city, there are plans for another park, called Peterhouse Technology Park, which would be the latest development on a green-field site in the area. It is intended that this 12-acre site would mainly be for are now back to about £15 a research and development companies.

While most new development has focused on the northern edge of Cambridge, development on the southern side of the city has proved more difficult. This area of farmland and villages is popular with London commuters and development has been limited by conservation concerns.

Mr Burroughs said the pressures in the city have arisen because of the Cambridge economy's success in areas such as high-tech industry and research and development. The growth in these areas has encouraged other industries which service them.

"There are now some big requirements so more busiesses are moving in," said Mr Burroughs.

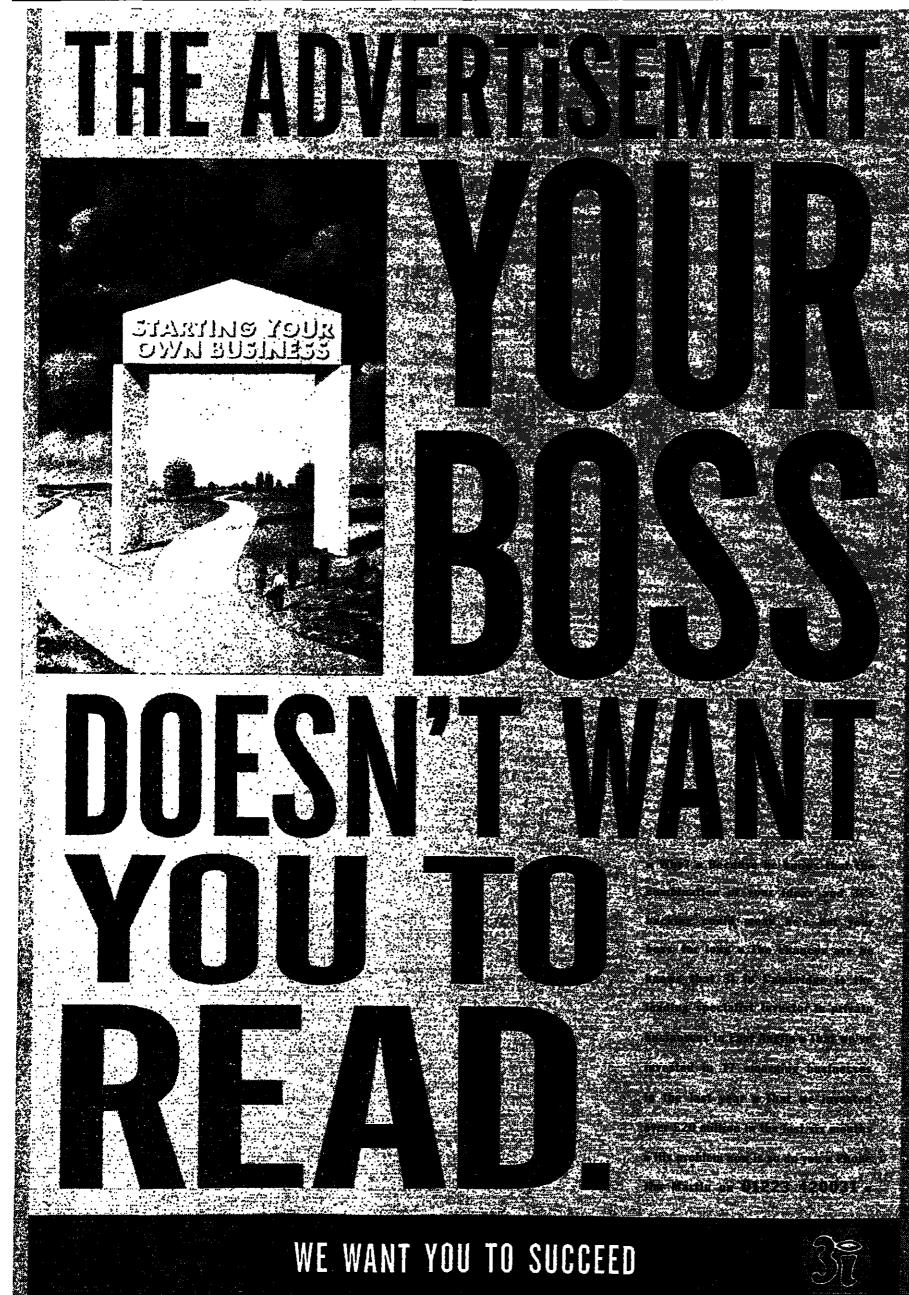
Pressures are also emerging in the residential property market. Owing to the take-up of new land for building, the number of plots of available land has dwindled from 2022 in July 1989 to 1918 by December 1995.

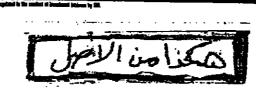
"Because developers can sell the houses they build in Cambridge, the demand for residential building land has remained high," said Mr David Bateman, associate partner at Bidwells.

He said Cambridge University, Addenbrooke's hospital, the science park and the city's schools were all responsible for the continued high demand for residential property.

He calculates that the

average price of an acre of developable land is now about £700,000, although this varies around the city. There is a slight north-south divide in Cambridge in terms of attractiveness of location. with the south side being the







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The university is a source of employment as well as employees

Training and employment: by Midge Gillies

Labour pains in several sectors

The city is group of people still leaving allowing un undertake 1

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A CONTRACTOR OF THE SECOND

paradoxically short both of jobs and the right kind of employees

It is ironic that a city dominated by a university with a world-class reputation should suffer from a skills shortage. But several sectors have complained of

right people. Preliminary results from research carried out this year by CambsTEC (the Training and Enterprise Council for the area) shows that engineering companies in particular find it difficult

to recruit good people.

The problem is partly one of image. "Engineering companies complain that young people don't want to go into their industry because it's not glamorous and because they've seen people made redundant in the past," Mr Alan Maltpress, managing director of CambsTEC, says.

There is also the question of money: small to medium companies from a range of industries struggle to offer competitive salaries.

Compounding these problems is the fact that hi-tech companies, which were first attracted to the area in the 1980s partly because of the university, have skimmed off the cream of the most talented people. Research by Cambridgeshire County Council shows that in late 1993 the city and South Cambridgeslure employed 23,000 people in hi-tech jobs such as electronic engineering, research and development, computer services and telecommunications.

The flip-side of this skills gap is, of course, unemployment. The growth of these sorts of companies has contributed to "blackspots" such as the middle of Cambridge where unemployment among young, males is about 10 per cent. Although the level of unemployment among this group fell between 1993-95, it is starting trade with hi-tech compa-

puter literate, be able to comes around." communicate, work in a team, and be able to read ally taps into the expertise and write. There's a big at Cambridge University by

group of people still leaving allowing undergraduates to school without those skills," undertake project work as Mr Maltpress says.

One company trying to close the skills gap is the Marshall group, which has been based in Cambridge since 1909 and is one of the biggest manufacturing employers in the area. The company is privately owned and is divided into three main areas. Its motor business sells cars through deal-Crovdon, south of Lo and Ipswich in Suffolk.

specialist vehicles such as those used by military customers and its aerospace business repairs and services aircraft at Cambridge airport, which it also runs. In total, it employs 2,200 people. Mr Gordon Schofield, director of personnel, says the company finds it difficult to recruit specialist workers such as stress and avionics engineers and usually has to advertise nationally because there are few aircraft compa-

introduced an adult training scheme because it was finding it difficult to recruit fitters. The scheme, which runs alongside Marshalls' long-established apprenticeship programme, has attracted workers aged between 20 and 40.

"It's proved very successful - almost more so than the apprenticeship scheme because we've got the commitment from adults who are willing to acquire a trade and the skills they've missed out on earlier in life."

Mr Schofield believes that the growth of hi-tech companies has meant that manufacturing industry is better served in some areas. As an example, he points to the emergence of training companies that have developed to serve the hi-tech community but which are also useful to manufacturers who need advice on information

technology. "There are several spinoffs from other people who nies. There is an interchange "Everyone has to be com- of skills and knowledge that

Marshalls also occasion-

undertake project work as part of their degree and sometimes taking the student on after graduation.

The university is a source of employment as well as employees. A total of 7,000 people - ranging from lecturers to lab technicians and gardeners - work for it or for its 31 colleges, which are run autonomously. The university, together with other eduproblems in recruiting the erships as far apart as cational bodies, hospitals, Leicester in the Midlands, and central and local governgroup of employers in the policy paper. It also makes bodies for

Probably the next biggest area of employment is tourism, which supports an estimated 6,650 jobs through catering, hotels and shops. Business support services

are also increasing and Mr Maltpress says that more companies are beginning to view Cambridge as the centre of East Anglia and choosing to have a regional base in the city. He adds that road and rail links and its proximity to Stansted nies in the area. In 1991 it Airport all make it the area's natural base.

The region's TECs are also working with local government to set up a new eastern region investment agency based in Cambridge to attract more companies to the area.

The question is how will all these companies be staffed? CambsTEC remains concerned that the skills shortage will become more acute as the century draws to a close. It forecasts a 32per-cent increase in demand for managers and administrators up to the end of the decade. It also expects an increase in the number of women at work - from 37.8 per cent of the local workforce in 1981 to 43.9 per cent

CambsTEC's response is to try to promote the idea of the modern apprenticeship times. for all industries and to build partnerships between schools and colleges and employees. But it is also trying to persuade companies to invest more in training and less in cutting corners by poaching skilled staff from their rivals. Only then will Cambridge have employees of a calibre to match its worldwide reputation.

Congestion takes its toll

Extra jobs and poor public transport have led to traffic congestion

Located at the point where the main route from the Midlands to East Anglia crosses the River Cam and several tributary valleys converge, Cambridge came into existence and prospered as a centre of communications. with successive developments in Roman, Saxon and Norman periods.

Today, transport and com munications have moved from being one of Cambridge's main assets to one of its biggest problems. Traffic congestion, overcrowding and parking problems were voted the worst thing about living in Cambridge in a

At neak times, made run ning through the region suffer congestion, but it is the roads in and out of the city which represent the most pressing transport problem.

On the most important radial roads leading into the city there was an overall increase in traffic crossing the city boundary of 50 per cent between 1980 and 1992.

While 35 per cent of peakhour journeys by city residents in Cambridge are by bicycle, only 6 per cent are by bus, 31 per cent by car and 14 per cent by foot. For people living outside the city, in South Cambridgeshire, the car is even more popular, accounting for 73 per cent of peak-hour jour-

The city council forecasts that if current trends continue, traffic wanting to cross the city boundary will increase by 66 per cent over the next 10 years.

"This would add to both to road safety and environmental problems, affecting all road users including pedestrians, cyclists and bus passengers, together with deterioration of the environment in areas adiacent to main roads and in residential areas unprotected from through traffic," Mr Barry Louth, principal transport planner at the city council, warned in a rece

The main cause of the congestion problem has been Cambridge's success in attracting new employment. Since 1981, the total number of jobs in Cambridge has increased by 25 per cent to 80,000, plus another approximately 5,000 jobs supported

by tourism.

However in contrast with the growth in employment. most of which has taken place in the city, most of the growth in housing has taken place beyond the green belt. "Since employment growth has been greatest within the city, the effect has been to pull more highly paid workers into the area and to increase pressure on the housing market," Mr Louth

Another cause of the traffic problems "is the extremely poor public trans-Robert Tuckwell, lead officer in transportation planning at Cambridgeshire county

council. There has been a steady decline in bus passengers over the past few years, estimated at approximately 3 per cent a year, and this decline has been compounded, council officials say, by the deregulation of bus services which has led bus operators to concentrate on profitable routes at peak

The local railway service is used mainly for commuting to London and is not used much for commuting

into Cambridge city. Poor public transport and high car usage has led to concerns about the environment and safety. Cambridgeshire has the highest road accident casualty rate per head of populuation of any

The Grange



Cambridge's traffic proband city council. Stagecoach. lems. The first initiative is

In terms of casualties the most serious accident problem is the number of cyclists injured.

ple, in 1992 there were 622

road accidents in Cambridge,

77 per cent of which

The number injured in

For example, a scheme to

provide the free use of bikes

the city failed when all but a

involved cars.

1992, for example, was 65 per A traffic cent higher than in 1981. Council officials say that efforts to solve these serious traffic problems have, in the initiative past, been hampered by the split in powers between the city council, county council and South Cambridgeshire district council who have been pursuing different transport policies. A number of schemes have also failed.

few of the 200 bikes were sto-Officials from the three councils say that they are

the development of park-andride sites, which allow commuters to park their cars on the outskirts of the city and complete their journey into Cambridge on a bus.

A new park-and-ride site

managment follows injuries to over 500 people in the past five years

the west of the city earlier this year. It provides free parking for 450 cars and offers a bus connection into the city centre every 10 mincurrently working together utes. Development of the site on a number of initiatives cost £1.8m and was funded which could help dilute jointly by the county council so-called "core area" of the period," says Mr Tuckwell.

opened at Madingley Road to

the bus operator, has bought £250,000 to operate the service from the Madlingley Road site.

received planning consent for another park-and-ride site at Newmarket Road to serve the east of the city, and further sites are being

Of the two other park-andride sites currently in use, council officials say that the site at Cowley Road to the north of the city may be redeveloped, but the Clifton Road site in the south is too small and is located in the wrong area.

Another initiative will in January lead to the city and county councils closing Bridge Street, which runs through the historic city centre, to through traffic. Council officials say that if the experiment proves successful they will extend the scheme to all roads in the over the experimentaly

The introduction of this traffic managment system follows injuries to more than 500 people over the past five years in road accidents The county council has within the core area. Council studies have also found that about half of all cars entering the core area do not require access and are pass-

ing through. Environmental concerns are also a factor: "Air quality monitoring shows the narrow streets in the core area experience high levels of polluntants produced by motor vehicles." the county council says.

Council officials say that computer models have been used to assess the likely impact of the road closure scheme, but admit that it could backfire, simply increasing congestion on other roads running through

"We shall be monitoring the situation very carefully



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Welcome to the city... please stav

Visitors find this city the place to be, but for only a few hours

Cambridge - one of Europe's great medieval university cities - has no problem attracting tourists. It does, however, have great problems managing them... and even greater problems per-suading them to stay long enough to truly benefit the local economy.

The city council made clear its concern earlier this year when it laid out a plan for the future. "The main aim of the Cambridge Tourism Strategy," it said, "is to manage, not promote, tour-

Tourism is just one boom sector in what is a buoyant local economy. In 1994, according to the council strategy, the city received 3.4m tourist visitors - or more than 30 for every resident. In 2001, the numbers are expected to reach 4.2m.

Cambridge's problem, shared by other cities such as Canterbury and Oxford, is that it is too close to London, with improving train and road links bringing it ever closer. In 1994, tourists stayed for an average 1.4 nights, although that was better than the 1991 figure of 1.2 nights,

It is estimated that these visitors spend £195m a vear in the city, although all such figures are best guesses. Apart from spending in the city centre shops - around 8 per cent of turnover – and in restaurants, pubs, and cafes,

they also generate jobs. enough to spend on entertainment, long-stay accommodation, or using the city as the base for touring the region. "We are a whistle-stop venue," says Ian Cooper, the city's director of leisure services. "We are just too near London," says Lydia Bowman, the Cam-

for promoting co-operation bridge is theirs." on city centre issues. "You can do it in a day - whizz up the M11, have a pizza and sandwich and go back down

Cambridge of a "tourist

experience" development -

similar to the Oxford Story,

or Jorvik Viking Centre in

York - encapsulating the

story of the city and give

one-day visitors an enjoyable

He also sees modern archi-

tion. "There has been a

recent growth of a range of

ture - late 1980s and 1990s -

such as the Judge Institute

But he puts more hope in

the longer-term development

of academic and business

tourism. He believes a thriv-

ing conference sector would

visitors for longer stays. The

problem here seems to be

tourist accommodation.

However, partnerships

between the local authority

and the private sector have

sought to solve some of the

venues, while those provided

by the university are sea-

Corn Exchange - also need

more investment. And while

the city has good-quality

town centre hotels, there is a

lack of middle-range, smaller

hotels. The centre of the city

Programme, acting as a

travel agent in co-operation

with hoteliers, and launched

a similar co-operative ven-

venues. But breaking Cam-

tinental Europe and – the

remainder mainly from the

is also crowded, with little

and the Law Faculty."

introduction to its past.

But Ms Bowman, and others, believe the city could attract people for longer by raising the profile of its hinterland - East Anglia generally and its coastline - and relieve pressure on the historic core.

This will not be easy. David Keeble, of the university's Centre for Business Research says: "I am sceptical of attempts to disburse tourists from Cambridge."

> Breaking Cambridge's image as a tourist artefact to be seen briefly will be difficult

For example, Dr Keeble a shortage of good meeting believes the surrounding countryside, especially the Fenland, is "an acquired sonal Local authority facili-taste". Attractions such as ties - such as the L800-seat Ely Cathedral, Anglesea Abbey and the old town of Saffron Walden may not prove strong enough to make Cambridge a touring

Dr Keeble sees one of Cambridge's problems in the room for development. appeal of the colleges which have in themselves become "tourist artefacts", past which thousands troop having been decanted in the city by coach. The result can be congestion and an undermin- ture to promote conference But they do not stay long ing of the relaxed academic environment some tourists. and many local inhabitants, artefact to be seen briefly

Ms Bowman agrees that there is an antagonistic relationship between local people and sight-seeing tourists. "Local people have a very strong sense of ownership in Cambridge - everything has bridge's manager responsible to be debated, they feel Cam- US and Japan. ■ The arts: by Midge Gillies

Three distinct audiences

The city has a wide range of entertainment for its students, Dr Keehle can see potential for the development in locals and tourists

> Cambridge's three distinct audiences of students, tourists and local people allow it to offer a much wider variety of arts and entertainment than most other cities of its size.

As a result, venues co-orditecture as a potential attracnate their programmes to avoid duplication and to ensure they meet the needs distinctive modern architecof a diverse audience.

The more "mainstream" venues are clustered in the historic heart of the city where they can attract visi-Cambridge Corn Exchange, an example of an arts building which is on the tourist trail, also manages to attract a local audience, those willing to travel to see investment in facilities and the right show, and a smatthe city's relatively poor tering of students.

But, as Mr Robert Sanderson, director of Cambridge Com Exchange, says, a cantral location can have its discity's problems.

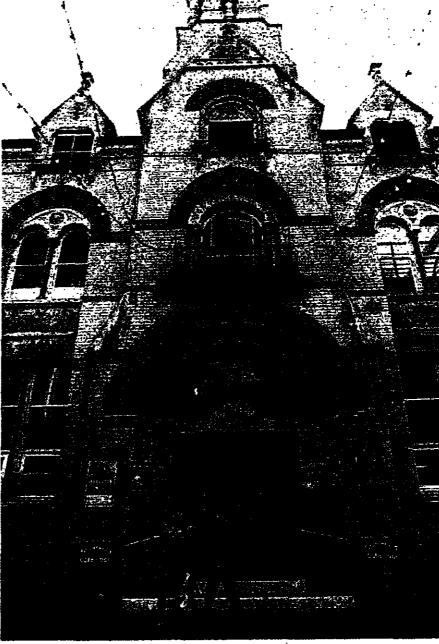
Ms Bowman says there is

"It's a slight nightmare being a Grade One listed building in the middle of a world heritage centre. Sometimes we dream of a greenfield site on the Al4 with free carparking and trees. We're very hemmed in but it's important to keep the city alive at night.'

The Corn Exchange was built as a joint agricultural market and concert hall in 1875 and renovated 10 years ago. The building, which is The city council has led a run by Cambridge City successful Welcome Break Council, attracts a range of performers from pop stars such as David Bowle and The Cure, to The London Symphony Orchestra and the Royal Ballet.

It also hosts raves and bridge's image as a tourist stand-up comedy and sells tickets for other vanues in and photographed will be the area such as The Juncdifficult - especially among tion, which offers entertainforeign visitors. In 1994, ment for a young audience, about 38 per cent of visitors and West Road concert hall were from the UK. About which provides classical half the rest were from con-

> performers have helped to widen the appeal of the Corn Exchange so that



The Corn Exchange: Grade One listed building in the middle of a world heritage centre

60 per cent of its audience now comes from more than 20 miles away. Shows often attract people from London particularly if a tour has bypassed the capital or a fan has missed a performance, or simply because road and rail links are so good from auditorium and a massive north London.

"Basically, we know we're not a perfect venue; we are an old Victorian indoor market that's been turned into a is situated close to Cammodern, multi-purpose enter-tainments complex." says Mr

the technical staff really month after a 34-year gap tre, Cambridge also offers some time to come.

being interested in the difficult shows like getting the Royal Ballet on, when you have people like Darcey Bussell who are used to the Covent Garden stage, but you've got the orchestra stuck in the corner of the

set on stage." Cambridge Arts Theatre, which was founded by John Maynard Keynes in 1936 and bridge Corn Exchange, also broad programme. The build- performance there.

launch the careers of performers such as Peter Cook, David Frost, John Cleese and Stephen Fry and Emma Thompson. The Theatre still maintains a tradition, established

partly funded by Lottery

cash, has had a long associa-

tion with the Cambridge

Footlights and helped to

by Keynes, of bearing any losses incurred by amateur groups from the city and bridge. Like the Mumford Theatre, based at Anglia Polytechnic University, it stages both amateur and professional Most of the university's colleges also put on amateur

the ADC Theatre which was

started by an undergraduate society (the Amateur Dra-

matic Club) and is now run

by the University of Cam-

offerings throughout the

Students run their own film clubs and Cambridge's commercial cinemas provide a total of nine screens.

In addition, the Arts Cinema offers a more adventurous programme of foreign and "art house" films and also hosts the film festival

The visual arts are represented through an equally diverse range of venues. from the Fitzwilliam Museum which houses masterpieces such as works by Titian, Rubens and Renoir, to the more modern setting and exhibits of Kettles Yard and Cambridge Darkroom But diversity of audience

can also lead to tensions between the three groups. One of the reasons the city council is so enthusiastic about arts and leisure is that it recognises the importance of tourism to the local econ-

It claims that the £19 a head it spends annually on arts and leisure is the highest contribution made by a non-metropolitan authority.

However, some local people complain that too much attention is paid to the needs of transitory audiences - the students and the visitors. Mr Sanderson admits that

he aims for the widest range of audience, "so there are less people out there who don't like what you're

This criticism has been partly answered by establishing regular events such as the Cambridge Folk Festival, which was started in 1965. There are plans, too, to host a comedy festival next year which would involve a range of venues from theatres staging stand-up comedy to galleries exhibiting cartoon art.

It looks likely, though, ence will continue to be a "It's a matter of attitude ing, which reopens this As well as the Arts Thea- boon as well as a bane for

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1997 issues : 13th February 24th April

10th July

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PROFILE The Judge Institute

Getting on with the job

The institute is establishing itself as a business school to be reckoned with

While dons at Oxford University squabble among themselves about whether nanagement education is a academic subject worthy of their attention, and whether they are prepared £20m from Saudi enirepreneur Mr Wafic Said to fund their studies, Cambridge University has quietly and purposefully got on with the job of setting up a business

the doors on the fabrilously restored Addenbrooke's hospital in the heart of Cambridge, designed by the architect John Outram – this is the home of the university's business

The conversion was completed with £8m donated by Sir Paul Judge and his wife Anne, in recognition of which the school has taken on the name Judge Institute of Management Studies, and £5m from the Morrement Trust, one of the Sainsbury family trusts.

While suspicion and mistrust plague the relationship between Oxford dons and their would-be benefactor, dealing with its benefactors has proven anything but irksome for Professor Sandra Dawson, director of the Judge Institute.

"I see it as good practice on my part to talk to our benefactors. It is a working nartnership between us," she says. "We have to relate to the business world out there which is our research Professorships endowed by Guinness, KPMG and

ndersen Consulting are

THE PART WHEN

The fabulously restored Addenbrooke's hospital in the heart of

among the school's other corporate links. The institute is also looking for a further donation of £2.5m-£3m to fund a new library. Sir Paul, former

chairman of Premier Brands, is also relaxed about the relationship, describing his role as one of support for the business school.

He also tries to encourage potential donors to give money to the school and is chair of the advisory board, a group of business people who help faculty and students at the school keep in touch with business needs outside the university.

Str Paul proudly talks of one of his most recent meetings at Cambridge where he was asked to give a talk to the MBA (master of business administration) students. Like Oxford, Cambridge

was late into the business school game, but the Judge Institute is now gradually establishing itself as a business school to be reckaned with on the international stage. It presently runs an MBA course and from 1997 will offer shorter executive

These courses will initially target board members and those one

where anyone can apply to join - or consortium courses, where course members will come from a handful of non-competing

The longer-term plan is to offer courses for individual companies, says Dr John Hendry, MBA course director at the Judge Institute. However the path has not

always been a smooth one for the institute. Indeed, Dr Hendry has had to alter the structure of the MBA course twice since its inception six years ago. Dr Hendry freely admits

that the problems arose because the institute misjudged market The initial course, based

on ideas of management guru Mr Charles Handy, was for a three-year programme, with students spending one term each year at Cambridge. Educationally it was a dream. For employers and students it was a nightmare," says Dr Hendry.

Today's 21-month course consists of six months of study followed by a 12-month work period and finishes off with a series of optional courses and a dissertation. But that has still proved

to be unpopular because, says Dr Hendry, students by their employers. As a their employers are

lukewarm in support. From autumn 1997, as a result, the institute will offer a one-year MBA with most British business schools and European schools such as Insead, in

Fontainebleau, near Paris. Indeed, with fewer than 20 per cent of students coming from the UK Dr Hendry classifies the institute as one of Europe's most international schools, alongside Insead, IMD in Lausanne and London Business School.

The largest single national group – 25 per cent in total – are from the US. The one-year MBA programme will run alongside the established 21-month sandwich programme but Dr Hendry predicts that some 75 per cent of students will opt for the 12-month course from

its inception.

The institute is also the focus of management search at Cambridge and in July this year received a sizeable donation to help set up a governance study centre, involving Cambridge's existing Centre for Business Research, funded by the Economic and Social Research Council, and

other faculties. Funds for the centre came from Mr Bob Monks, one of the central figures in the US corporate governance movement over the past 15 Years.

As welling as attending Cambridge himself as a Harvard scholar, Mr Monks cited Cambridge's formidable academic reputation as the main reason for locating the centre at the Judge

Della Bradshaw

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PROSPECTS FOR PAKISTAN

The political measure of the stabilisation programme is whether it can be made to stick, write Peter Montagnon and Farhan Bokhari

Interim of uncertainty

A sigh of relief went up in Pakistan when Ms Benzir Bhutto was ousted as prime minister on November 5. The removal of a democratically-elected leader might have been expected to spark widespread protest. Instead there was a sense of satisfaction at the demise of an autocratic administration which tolerated a level of corruption that shocked even Pakistan.

But her removal has created deep political uncertainty. The caretaker government installed by President Farooq Leghari has been weakened by doubts over the legality of his move to oust her, by his appointment of cronies to ministerial positions and by his failure to lay formal charges of corruption against Mr Asif Ali Zaradari. Ms Bhutto's investment minister husband, who is being held in custody.

The hope is that it will at least bring some prospect of economic stability. Mr Shahid Javed Burki, the World Bank official brought in by President Leghari to run the economy, has set about completing negotiations for a new dose of short-term International Monetary Fund finance. This week he is in Washington to begin discussions on a longer term structural adjustment loan,

The central question, though, is whether economic recovery can be sustained if Pakistan does not have a government with the authority to push through tough measures designed to restore confidence and secure Pakistan's ability to service its \$28bn foreign debt. The mandate of the caretaker government lasts only till February 3, though many fear it will prove impossible to hold elections on schedule then. Even if they do take place, the result could be a hung parliament and a try. weak coalition.

package of structural reforms to be announced later this month could transform Pakistan while maintaining a reasonable level of growth. "If we succeed in this experiment it will be the first programme of stabilisation which would not be accompanied by a major recession," he says.

In theory, the programme put forward by Mr Burki and his team of professionals makes perfect sense. It rests on the need to reduce government indebtedne total foreign and domestic debt amounts to nearly 90 per cent of gross domestic product, imposing a severe strain on public

The main elements are: a reduction in the size of government designed to curb the deficit and reduce the scope for corrup-tion, accelerated privatisation to create resources to pay off debt; banking reform to rid the system of bad debts totalling over 6 per cent of gross domestic product; and fiscal and tariff reform aimed at removing distortions and enhancing the government's ability to collect revenue.

The need for such changes is clear. As an example of profligate spending by officials, Mr Burki cites one of Pakistan's four provinces where each minister had 30 cars at his disposal. "And they were expensive ones like Toyota Landcruisers and Pajeros." Pakistan's state-owned banks

are loss-making and like other public enterprises, heavily overmanned and inefficient. The government's tax collection rate is a mere 13 per cent of gross domestic product. Within that, tax collection from agriculture is just 0.5 per cent, so whatever burden there is falls unfairly on indus-

Attempts to tax agriculture, Mr Burki, a veteran of World however, have been opposed by get of just Rs52bn for the end of Bank rescue packages for Latin politically influential landowners



who argue that the government No one has yet dared to sug-

takes away much of their profits by artificially depressing the prices of food grains to pacify urban dwellers.

While Pakistan has relatively few quantitative restrictions on imports, its tariffs are higher than other Asian countries with a peak of 65 per cent. That makes inputs expensive and shields domestic industry from competi-

Yet if correcting all these problems is simply a matter of common sense, implementation has already begun to prove difficult. Since the caretaker government entered office government borrowing from the banking sector has continued to grow apace. reaching Rs76bn by the end of November compared with a tar-

gest that defence spending. which takes up a quarter of gross domestic product, should be cut. And though the government has announced strict new measures against corruption, it is being slow to follow through with

Nor, given its precarious foreign exchange position, can the government afford to withdraw the anonymity privileges accorded to foreign exchange deposits in Pakistan's banks, a standard vehicle for money laundering. That suggests a long unhill struggle to clean up government and remove the huge waste caused by corruption. This, analysts say, shows

clearly that political reform must go hand-in-hand with economic reform. Mr Fakhr Iman, education minister in the earlier Pakis-

tan Muslim League government of Mr Nawaz Sharif, believes there is a deep-seated desire for change in the country's "polluted" political culture. The ousting of Ms Bhutto pro-

main points of contention which

The supreme court has yet to

rule on her complaint that her

dismissal was illegal, but it

seems unlikely that she will do

well if elections do take place.

Her Pakistan People's Party is

riven by dissent with some sup-

port, particularly in her home province of Sindh, peeling away

to a rival faction led by Mrs

Ghinwa Bhutto, widow of her

murdered brother and rival Mur-

election as prime minister. He is

popular with business and

thought to have helped broker

the recent balance of payments

The chances are that Mr Nawaz

led to Ms Bhutto's dismissal.

vided the opportunity for such a change. "If in the minds of the public, those who are perceived to be corrupt and not clean are brought to trial, it'll set the tone and the direction for the kind of culture the people are looking for."

So far, there has been little sign of such a development. Instead the political situation has grown murkier, and there have been renewed signs of violence with bomb blasts in both Karachi and Lahore. Last week President Leghari's position was seriously weakened by a supreme court loan from the United Arab Emirruling that he had to accept the ates that will help bolster the forprime minister's advice on the eign reserves. But, like that of Ms

Bhutto, his last administration ended in disgrace. He, too, was dismissed amid allegations that his government was corrupt.

In desperation, some middleclass Pakistanis are beginning to countenance the possibility of a longer period of non-parliamentary technocratic government. Some argue that the constitution would allow for such a move if the programme and the mandate for such a government were

approved in a referendum. Many believe the military, which has been low profile so far, could still intervene to impose such a solution if the situation did get out of hand. But, according to Mr Imam, supporters of such a move are generally people on the outside of politics. What is really needed is a strengthening of democratic institutions with transparency and accountability.

"That's the only way. A nondemocratic, non-elected government has been tried before, but with what results?" he says.

Thus, after the widespread relief which followed Ms Bhutto's dismissal. Pakistan still seems unable to shake off the culture of corruption, croneyism and vindictiveness which have poisoned its political and social prospects for at least a decade.

Pakistanis must look with envy on the Philippines, once an even worse case, but now a democracy whose structural reforms have attracted large investment flows and made it one of the strongest exporters in Asia this year. While Pakistan struggles to implement change, the risk is that the international investment will go elsewhere and its own inflows will be

feeble as before. The best it can hope for is that some of the economic reforms proposed by the caretaker government will stick under the continuing supervision of the International Monetary Fund and World Bank and that the situation will gradually become less

And there is always the hope that determination will be born of crisis. "If you are a wise man, then you control events," says Mr Muhammad Yaqub, governor of the State Bank. "If you are not Sharif would emerge from any a wise man then events will control you because the realities will dictate the terms. But in the first case there's a danger of being liquidated as a country, society or state. In the second you adjust in a manner which is such that you survive."



New and old livelihoods in Karechi: the mobile phone dealer in the latest hardware; and the deliv wage-earner at the cotton loom appointment of judges, one of the

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Salman Services is a leading brokerage house in Pakistan and a Corporate Member of the Karachi Stock Exchange (KSE).

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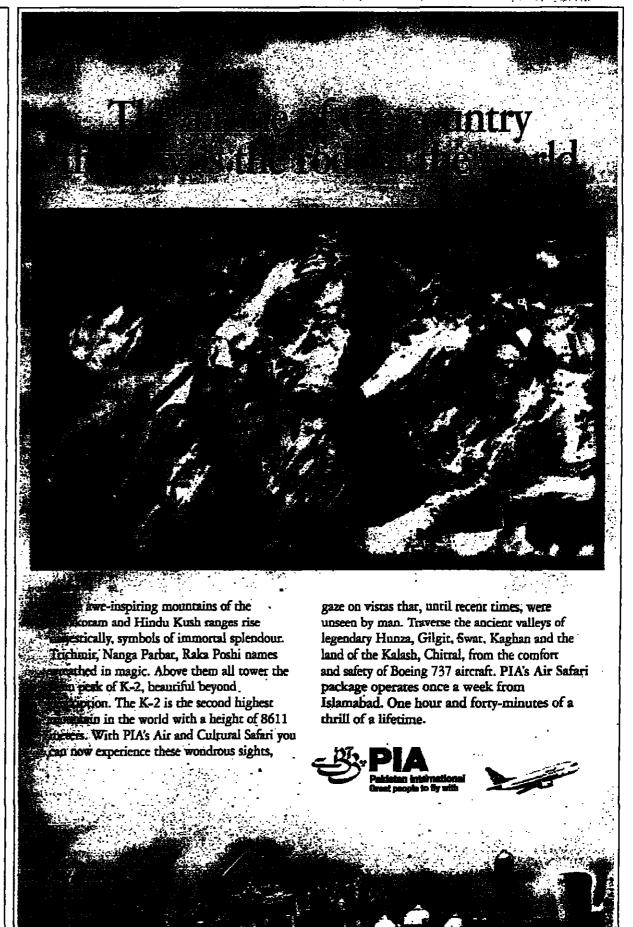
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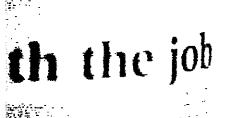
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biggest issue remains imple-

mentation and execution,"

vice-president of Bank of

unless the foreclosure laws

are simultaneously in place.

People must be confident

that the law works and can

be operated by the new gov-

Another concern is how



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Development Corporation),

but response to other

planned flotations like those

of the deeply indebted and

inefficient banks will depend

on efforts to clean up non-

One good sign is technical

improvements in the offing

to facilitate trading. Shortly

before its downfall, the

Bhutto government

approved new laws to estab-

lish a central depository sys-

ambitious modernisation

plan. Once operational, the

\$3.5m CDS is expected to

expedite the physical trans-

fer of shares. The KSE's

management is also working

towards computerised trad-

ing which it hopes will start

(CDS and computerised trad-

ing) our stockbrokers will be

able to set up branches all

over the country, their retail

business will increase rap-

idly," says Mr Bukhari, who

has begun expanding his

business outside Karachi in

The KSE management

expectation of more clients.

says that these new changes

will boost interest in the

market from early next year.

Expectations that the care-

taker government may offer

some tax relief on share

ownership has also recently

tion that any rally would

any, is temporary. People

want to see the fog clearing

up over the long-term hori-

zon before returning to the

market in a big way," says

one sceptical broker.

But there is no real convic-

helped support prices.

"With these new systems

(CDS) as part of an

performing loans.

The market trails badly

depend, above all, on the resolution of political uncertainty Pakistan's portfolio inves-

Future prospects

tors have little to celebrate as the year draws to an unpleasant end. The KSE-100 index of the Karachi stock market, the largest stock exchange, trails almost 20 per cent below last year's final result and less than 40 per cent of the peak in the nast three years.

Many investors find themselves strapped for cash, have yet to recover. Others companies represent textiles are uncomfortable over future prospects. Though Mr Shahid Javed Burki, the government's chief financial adviser, says he expects a resumption of portfolio flows, the large-scale return of foreign investors is still

government has not given a boost, in spite of a precedent in 1993 when the market rose after a similar political change. Besides, the two government-supported investment companies – ICP (Investment Corporation of Pakistan) and NFT (National Investment Trust), which have stepped in previously to revive share prices - are now themselves pressed for liquidity.

By contrast, analysts say the fundamental factors look attractive, pointing to a rapid growth in monthly volumes of shares traded, and sustained buying interest in attractive equities such as Hubco, ICI and Pakistan tele-

ings multiple of 8, Pakistan banker in Karachi.

corporate earnings are holding up. Mr Nasir Bukhari of Khadim Ali Shah Bukhari taker administration. brokerage expects them to grow by 22 per cent this vear, with the pace accelerating to 26 per cent next.

But short-term concerns over Pakistan's recent economic trends have dampened prospects of recovery. The projections for the latest year's cotton crop have already been officially lowered by about 12 per cent after a pest attack.

Independent experts say that the damage is larger. Its effect has added to anxieties with investments still tied in the market where almost up in shares whose prices a quarter of the 748 listed the largest export sector.

In spite of a recent package of incentives by the caretaker government of Mr Meraj Khalid, the prime minister, textile shares are still reeling under worries of a fall in expected profits due to higher raw material costs Even the recent change of in the local market. "The reality has started settling in that economic factors are not very encouraging," says Mr Farrukh Khan, chief executive of BMA capital

Not only are investors still

not certain the latest IMF package will work, they are also concerned about the political future ahead of the February 3 elections. If no clear winners emerge on the horizon, the new government may once again be a coalition of different political parties. "The prospect of a coalition government worries many investors because that could mean a repeat of political uncertainty and perhaps another government seeing its term end halfway through." says a foreign

new reforms introduced by some analysts argue that Mr Khalid's government corporate earnings are hold may die with the short life span of 90 days of the care-Mr Bukhari says: "The

change of government has been a stabilising factor, But ninety days wouldn't make a difference. The government should stay for at least a year." Mr Khalid and president Faroog Leghari are however committed to holding elections on February 3 and to transferring power to an elected government, in line with Pakistan's constitution which gives no more than ninety days to caretaker administrations.

Future prospects also

depend on the development of instruments such as functioning by next summer. mutual funds and the course of the privatisation programme, which should add both to market liquidity and to the range of shares on offer. The growth of mutual funds has been deterred by regulatory and tax issues. For instance, not only are investors taxed directly on their income from mutual funds, but the funds are also themselves taxed separately. so there have been complaints about double taxation. Pakistan's caretaker government has promised

still unclear. Many investors are also eagerly watching new privatisation offers planned for the next twelve months. The government says that it plans to offer global depositary receipts (GDRs) and shares in public sector corporations worth \$1bn. But opinion is divided over the market's ability to absorb the new paper.

reforms but the likely

impact on share prices is

Investors are certain to be attracted to some of the more profitable companies Other analysts say that like OGDC (Oil and Gas

■ Banking sector: by Peter Montagnon le with bad loans

issets of defaulters. Accord- says Mr Ali Raza, senior

ernment."

Recovery of fortunes rests with the results of

the Resolution Trust's activities Pakistan's banking problems

may never have attracted the attention meted out to Japan's jusen or housing loan companies, but the impact of bad loans on the country's financial system is almost equally dramatic.

According to Mr Shahid

Javed Burki, financial adviser to the caretaker government, the country's commercial banks are struggling with bad debts totalling around Rs140bn, equivalent to over 6 per cent of gross domestic product.

Most of the bad loans are concentrated in the stateowned banks, most relate to loan losses in the textile sector, and many of the borrowers have long enjoyed politi-cal clout which protects them from having to repay.

"Dealing with bad debts is probably one of the most critical elements of financial sector restructuring," says Mr Zakir Mahmood, general manager for Pakistan of

The problem has become a priority for the caretaker government. It is negotiating a large loan from the World Bank and other official lenders to finance a plan to take the bad debts off the books of the state banks and place them in a special company. called the Resolution Trust. The trust would then be responsible for recovering as much cash as it can.

The weight of bad debts stymied efforts by the Bhutto government to privatise United Bank, one of the country's leading stateowned banks. It is an obstacle to the

introduction of more efficient management practices and is forcing the banks to charge much higher interest rates than would otherwise last. "The improvement, if be the case. The caretaker government

moved quickly in its early weeks to change the management of state sector It is introducing a new

gic investor who would buy

foreclosure law which will

make it easier to attach

ing to Mr Burki, it plans to

set up the Resolution Trust

early next year to pave the

way for speedy privatisation

Following the pattern set

in other countries - includ-

ing the US when it was

forced to tackle the crisis in

the savings and loan indus-

try in the 1980s - the Resolu-

tion Trust would be financed

by deep discount bonds bear-

ing a government guarantee.

It would attempt to

recover some of the debts by

auctioning off the bad loans.

Buyers would be investors

aiming to make a profit by

collecting the debt or devel-

oping some of the assets

of the state banks.

attached to it. Typically they might include local or foreign investors hoping to acquire a textile mill whose original owner ended up in

But estimates vary as to how much of the bad debt can be recovered. Mr Burki reckons the total might be around a third of the bad debts.

One uncertainty is how much of the accumulated bad debt consists of interest payments which will never be recovered, says Mr Azhar Hamid of ANZ Grindlays. That could amount to around 30 per cent of the total. "Then I think they II be lucky if they recover 50 per cent of the principal."

And while most bankers accept that the idea is sound in principle, many remain cautious in practice. "As usual in this country, the

to finance the Resolution Trust may be difficult to sell to the public, he adds.

According to Mr Muhammad Yaqub, the widely-respected governor of the State Bank of Pakistan, the scheme will only work if it is preceded by efforts to stop new bad loans being put on to bank books. The Resolution Trust addresses the problem of the stock of bad loans but not the flow. "If you address the stock problem, it creates more room for people to play," he says. "My concern is that the problem should be addressed only after the flow is taken care

Among the conditions for sounder banking is a clear understanding that the state bank has a sole mandate for banking supervision and control, says the chief of the central bank.

This means building barriers to prevent patronage and political influence on the banking system by the America. "The Resolution finance ministry and prime Trust will fall flat on its face minister's office. "Lower level functionaries in the ministry of finance have a vital interest not to see these walls created," he says. The powers of the central bank should be enhanced so that it would be able to replace top executives at banks.

the government will run the It should also be the sole Resolution Trust. "It will authority responsible for lichave to be managed as a ensing banks. At the same result-orientated private sectime, the bank intends to tor enterprise. The personalibuild up a new team of ties who are chosen to run it trained supervisors and will be very important," says invest in information tech-Mr Atif Bajwa, country manager of ABN-Amro Bank. nology to beef up its supervisory role, he says. Even with a government guarantee the bonds needed

It also plans gradually to impose tighter capital adequacy rules on banks, moving away from the present scheme whereby capital is calculated as a proportion of liabilities to Bank for International Settlements rules whereby banks are required to have capital equivalent to at least 8 per cent of riskweighted assets.

Though the foreign banks. which collectively account for some 20 per cent of all bank lending in Pakistan, derive some advantage from their relative health compared with the debt-ridden state banks, many believe the industry generally would benefit if the bad debts were dealt with.

The economy as a whole is weakened by the problem, says Mr Mahmood of Banque Indosuez. The state-owned banks also need to deal with their bad debts so they can turn their attention to improved efficiency. "There's an enormous amount of waste, overstaffing and bloated expenses,"

But there are few illusions about a speedy solution. The size of the debt which has to be collected is large, the money has to come from somewhere, and if attempts were made to collect it too quickly there would be an effect on the general economy, says Mr Mr Farrukh Khan, chief executive of BMA Capital Management. The process has to be spun out over considerable time.

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Privatisation: by Farham Bokhari

Sitting on a pressing deadline

Delays and lack of transparency have been only two of the main obstacles

Few people will envy Mr Salman Shah, the business professor, now chairman of the privatisation commission in Pakistan's caretaker government. In the remaining six weeks before elections be must try to remove obstacles that have dogged the sell-off programme for almost five

He is now faced with the challenge of removing the obstacles to privatisation that have hampered the programme for almost five years. In spite of new economic reforms, Pakistan still has to demonstrate that it can attract a large number of buyers, willing to offer attractive prices and to take over management of public

sector companies. Mr Shah's job is doubly difficult because the programme has become tainted by the lack of transparency in previous deals. He has started by promising to revamp the privatisation commission and establish new rules. The search has begun for new talent from Pakistan and abroad so that a core team of experienced officials is appointed.

"The key issue is to have the best people possible in the privatisation commission," Mr Shah says. "The problems of transparency will disappear with better echnical expertise".

Mr Shah has also promised to bring to the head of the queue those companies and assets that were ignored in the past. These include Pakistan's largest airport - the Jinnah terminal in Karachi - sea-ports and public sector development finance institutions.

He has also promised to expedite the sale of companies such as the Pakistan Telecommunications Corp (PTCL), power generation plants and power distribution boards. Many analysts are, how-

Shah's plans to make a quick turn around. The legacy of delays and have wielded enormous powthe lack of transparency sur- ers, thanks to their senior

ever. sceptical about Mr

Pakistan has so far only By some estimates, the sold 11 per cent of PTCL's size of the federal governshares through domestic ment in Islamabad can be pressure to step up the pace share offers and interna-tional GDRs, while the search is still on for a strate-

another 26 per cent shares and take over its manageto tackle the issue. Plans to sell the country's two largest state-owned banks, Habib Bank and United Bank, have also suffered. There are virtually no buyers for the two deeply-indebted banks that the gov-

ernment now wants to revitalise if it can succeed in getting loans from the World

Bank for restructuring. Many analysts also refer to the case of a former reformist government of caretaker prime minister Mr Moeen Qureshi in 1993. That government also launched ambitious plans to reform the economy and secure a faster push towards privatisation. But those plans quickly lost momentum, shortly after it left office at the end of its 90-day tenure.

The new government appointed by President Farooq Leghari, whose own term lasts until 1998, has promised to safeguard the reforms. But that assurance has not

helped to stem confusion in business circles over the extent to which the president can become involved. Pakistan's constitution gives few powers to the president for day-to-day implementation of policies in spite of strong authority to remove

Many analysts also see a danger in trying to push too many offers simultaneously, especially without assurances that there will be enough buyers to put in bids. Mr Farrukh Khan, chief executive of Karachi's BMA capital management, says: "If you try to accelerate too much, the chances of falling flat on your face are going to be high,"

Other businessmen say the government needs first to trim the country's bloated bureaucracy before it can make progress on privatisa-

"There's going to be resistance from bureaucrats, who rounding large asset sales, executive positions at public especially the PTCL, have sector companies," says a

Pakistan's economic planners are, however, under

performance of the government. Yet successive governments have not even begun

Businessmen say that the large size of the bureaucracy

of privatisation so that the money earned from transactions could be used to pay off a portion of the country's

increasing debt and reduce the annual debt servicing burden. "The message from the

World Bank, the IMF and all allows it to hold back the of Pakistan's western donors sale of important public sec- is to privatise, and pay off

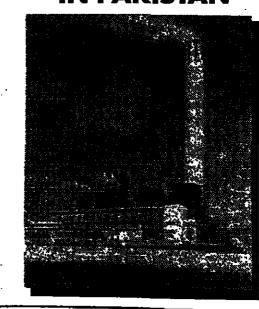
becomes too unmanageable." says a senior Western economist in Islamabad.

Faced with a time con-

straint, all Mr Shah can do is to lay the round and hope that a p. sing start will be made before his tenure ends. He hopes to leave behind "a strengthened privatisation system with people of integrit --- nning it and to leave a



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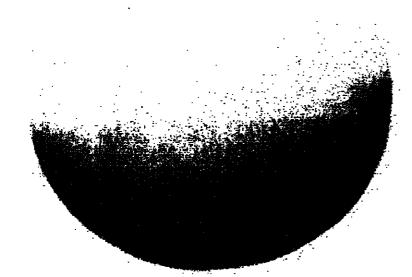


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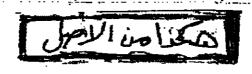
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FINANCIAL TIMES THURSDAY DECEMBER 12 1996

PROSPECTS FOR PAKISTAN III

Economy: by Peter Montagnon

Putting together the pieces

Pakistan badly needs fiscal reform, if it is to gain foreign confidence

Ms Benazir Bhutto, Pakistan's ousted prime minister, clearly believes it when she claims the economic record of her administration was one of "phenomenal success."

A growth rate, which even after this year's severe austerity measures is still expected to be around 5 per cent, and a decline in the fiscal deficit during her period in office to 6.3 per cent from 9.6 per cent may appear to vindicate this.

But in boasting that, at one stage, she had tripled the country's foreign exchange reserves to some \$3bn, she readily overlooks the fact that, when she was removed, they were down to around \$597m or less than three weeks of imports. Pakistan was in a severe economic crisis, brought about by the government's inability to manage and control its own indebtedess.

Privately officials admit that the country came close to defaulting on its \$28bn foreign debt as reserves dwindled this autumn. With a large bunching of short-term maturities, Pakistan had an awesome debt service ratio of some 52 per cent in the fiscal year to last July. The Pakistan government also has a large domestic debt of Rs909bn.

Some experts argue that Pakistan should stop pretending it can cope and actively seek to reschedule its debts. Trying to find ways of continuing to service it "is like giving a patient antibiotics for a viral infection," says Mr Nessar Ahmed, President of the with the IMF for a new

But the caretaker government has set its sights firmly against rescheduling effect on confidence. A complicated by the foreign currency deposits in local banks, amounting to some \$8bn and which are not counted in the official debt

figures. Instead the government aims to put the country's finances on a more sustainable footing by reducing the budget deficit, seeking to boost exports, paying down debt through the proceeds of an accelerated privatisation programme and encouraging

foreign direct investment.

Even before Ms Bhutto's downfall, the need for fiscal reform was clear. Spending was hard to control because well over half of it went on defence and interest payments. The large deficit was crowding out private sector investment, and with Pakistan's low savings rate of 14 per cent, the strain was showing in the balance of payments. Even on the official numbers, inflation was stuck around 10 per cent.

Her original budget in

June called for a tax increase of Rs41bn, largely through an extension of the sales tax on goods and services to all imported and manufactured goods except sugar, edible oil, petroleum products, unprocessed foodstuffs and agriculture products. This met widespread opposition. It became apparent that the government could not collect the money. Hence it would miss the target of 4 per cent for the deficit and the IMF halted drawings on a \$600m standby loan agreed last December. With reserves plunging as

a result, the government

began urgent negotiations

standby. Shortly before her which was due to release dismissal Ms Bhutto came \$160m to Pakistan this term economic policy of the

caretaker government. For once, the new budget spending cuts than increased

forms the basis of the short totalled Rs76bn at the end of measures focused more on of the fiscal year. That sug-

1901/2 1902/3 1903/4 1004/5 1905/6 Real GDP growth % 7.7 28 45 44 61 umar price inflation % 40.6 8.7 7 12.9 13.6 10.0 Facal ilefolt % GDP 7.4 9.6 6.8 6.8 6.3

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to amount to Rs27bn. collecting reven Defence was not cut directly, though the absence of compensation for the devaluation meant a real cut as the military can afford less imported equipment. The main cuts came from less essential development spending and cuts in recurrent spending by the elimination of waste.

Of the new tax measures the most striking was a first ever tax on agriculture, designed to raise Rs2bn. The agriculture tax will be collected by the provinces who will receive smaller transfers from the central government as a result. The basic structure of the unpopular sales tax was left unchanged though medicines and newspapers were exempted.

Though the package has been approved by the IMF, pensation in the form of long period," he says.

up with a new package. This month, the jury is still out factor in economic growth, included an 8 per cent deval- on how effective it will be. because of its devastating uation of the rupee, higher The early weeks of the careinterest rates, credit curbs taker government have seen rescheduling would also be on public sector enterprises a continued growth in govand budget measures ernment borrowing from the

amounting to Rs40bn. It banking sector. These November compared with a target of Rs52bn for December and Rs44bn for the end gests that the government taxes. These were scheduled continues to have difficulty

Circuit secount believoe 6 GDP 13 64 32 3.6 6.6

To cut the deficit from 6.3 per cent of GDP to 4 per cent involves a major tightening. Together, this year's budget packages have an annual impact of Rs100bn or 4 per cent of GDP. Even if the target is missed by a wide measure, the fiscal tightening

should be considerable. Less clear is whether the government will manage to avoid an impact on growth. Some industrial sectors such as cement are showing signs of weakness. In others, the measures have led to a sharp increase in costs. Mr Ian Sangster, chairman of Lever Brothers Pakistan says his company's costs have risen by Rs1.1bn, equivalent to some 10 per cent of turnover. Prices have risen as a result. Nor has there been com-

good news from agriculture. The cotton crop, a crucial has proved disappointing with the likely outturn now put at around 2m bales below the government's orig-

inal forecast of 10.5m bales. There are also doubts about how far the devaluation will improve Pakistan's trade balance. Though the trade deficit in the first quarter of the current fiscal year was \$765m, down from \$900m in the same period of last year, it is still large. Exports showed a 17 per cent increase in the first quarter.

Much of the devaluation was a lagged response to the high inflation in Pakistan. "We were simply trying to maintain the real effective exchange rate," says Mr Muhammad Yaqub, governor of the State Bank. Exchange rate adjustment is a necessary but not a sufficient condition for higher exports. You also need more investment and more efficiency.'

Pakistan has to increase its exports to pay for an oil bill that will reach some \$4bn by the year 2000 compared with \$1.5bn last year. Too many of its exports are still textile-related, and there is too little value-added in manufacturing. "Pakistan competes only on price, not quality." says Ms Fatma

Shah of HSBC James Capel Mr Yaqub warns that Pakistan must reduce its current account deficit from around 6 per cent of GDP to around 1-2 per cent because the flows of concessionary aid that used to finance it have dwindled. Eventually Pakistan will need to run a surplus as borrowings have to be repaid. "The need for a substantial expansion of exports and containment of

ess solid than it looks the new one. Documents

The image problem has meant that large foreign investors have stayed away

The future of the Pakistan Telecommunications Corp (PTCL), the state monopoly telephone company, looks uncertain.

More than five years after a government decision to privatise the PTCL, Islamabad is still faced with the challenge of selling what many consider to be the flagship of the public sector.

The delay has been the result of a range of factors. It has proved difficult to find a large international company willing to link up with PTCL through taking a stake. There have also been concerns over the implications for national security.

Under pressure from the country's defence services, Pakistan has agreed to use some of the proceeds from the sale of PTCL to set up a separate telephone service for the use of government and defence forces.

But the government has still not found an investor to put up at least \$2bn for that strategic 26 per cent stake. That buyer would also take over PTCL's management.

The sale of the stake would be Pakistan's largest single privatisation after 12 per cent of the company was floated on domestic and international markets two years ago. But the controversy surrounding that sale is part of the problem with future growth in the tele- phone services.

accompanying the flotation Pakistan remain attractive. overstated the number of PTCL, with roughly 2.5m lines in operation, claiming subscribers at present, still that there were 2.4m clients has a further capacity to when there were in fact only connect another 650,000

■ Telecommunications sell-off: by Farhan Bokhari

was an unintentional "over- caput telephone connections sight", but many analysts at 1.76 per 100 is expected to say that the confusion con-rise considerably. tinues to worry prospective buyers. One Western businessman in Islamabad says: "Pakistan has got a bit of an international image problem. For businessmen, its once

bitten, twice shy." But Mr Salman Shah, the newly-appointed chairman of Pakistan's privatisation commission, is convinced that the company can still attract reasonable competition from buyers. He quotes an internal study by the World Bank which suggests that there is interest among American companies in buying the

The privatisation commission said in September that a new consortium consisting of two international operators and a Pakistani company were considering an offer. They are the Stedco group of Indonesia and PTT Telecom Netherlands, who have joined hands with

Pakistan's Shaheen foundation, a business venture established by the air force. The Shaheen foundation has announced that the consortium was considering making an offer of up to \$2bn for 26 per cent of the company's

The government is con-

communications sector in users without any large new Pakistan claims that it investment. Average per

> PTCL announced in July that its annual revenues for the last financial year (July 1995-June 1996) had risen over the target of Rs35bn, but did not say by what per cent. The company has set a revenue target of Rs44bn for the current financial year of 25 per cent over the previous year. Even though details of the company's pretax profits for the last fiscal year have still not been made public, analysis predict that it would be about 7-12 per cent above the profits of Rs16.835bn for the year

before (1994-95). Particularly striking is PTCL's pre-tax margin of almost 40 per cent. This is at least in part the result of high domestic telephone tariffs in Pakistan.

The government has promised to provide the same degree of monopoly to the PTCL's new buyer, at least for some time after privatisation. The contract of sale for the 26 per cent stock would include a clause giving a seven-year monopoly over basic telephone services in Pakistan. The new buyer would receive a 25-year vinced that prospects for ing the full range of tele-

M Foreign investment: by Mark Nicholson

tale of constant vagaries

The pattern of a small number of new investments in large projects needs broadening

Even before November's political upheaval added to the political vagaries of doing business in Pakistan, foreign investors were the world's second most coralready treating the country with some circumspection.

A month before the dis-missal of Ms Benazir Bhutto's government, leaders of the Overseas Investors Chamber of Commerce and Industry, the chief representative body of foreign investors in Pakistan, had visited her husband, Mr Asif Ali minister, with a list of long-

Aggregate Deposits

No. of Customers Serviced

Provisional Signes in Pair. Respon

Aggregate Credits

investments

Gross Profit

over high duty rates, smugrestrictive labour laws and constant changes in policies.

The list did not include corruption, though this is & Gamble, ANZ bank have also a longstanding com- all been around for the best plaint of incoming investors. part of 100 years - it can Pakistan last year was rated make the barriers to entry rupt country, after Nigeria, by the German-based group Transparency International.

Citing examples of problems which the OICCI said were proving detrimental to their and other foreign investors' interests in the country, the body argued that the best way of attracting new foreign investors Zardari, then investments was adequately to reward those already in Pakis-

held woes and grievances. tan - something they argued They ranged from concerns was not always the case. Established foreign compagling and brand name pro- nies in Pakistan may, how-

tection to worries over ever, have some interest in sustaining the perception that Pakistan is "difficult". - "ICI, Lever Brothers, Procter very difficult for others, says one senior foreign banker in Karachi. Yet, many investors would

agree that Pakistan can be an awkward place to do business. "Companies with external shareholders might be a little reluctant to come into Pakistan, where you have to do business in an unusual way, which may not reflect practice elsewhere," adds

A New

Jan-June 1996 Growth

* 227.6 billion 22.5%

15,252.3 million

2.981.9 million

innovative **E Dynamic E** Different

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6.383,576

13.5%

22.7%

28.7%

58.2%

10.6%

Record of

Six Months'

Performance

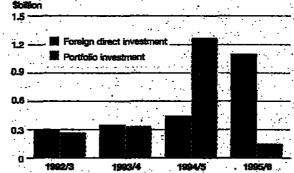
185.7 billion

11.848.4 million

London (2 branches), 6 other branches in UK, Paris, Frankfurt, New York (2 branches), Wast-

ington DC, Chicago, Yokyo, Hong Kong (2 branches), Seoul, Belling, Dhake, Cairo, Bahrain, Affiliate: Bank Al-Jazim, with 12 branches at all important cities in the Kingdom of Saudi Arabia.

Net investment inflows into Pakistan



Two rules of thumb emerge, one being that incomers to Pakistan do best when they can enlist wellconnected and street-savvy agents or joint venture parters. The other rule appears to be that bigger companies which can command some international clout are more likely to succeed in breaching the formal and informal impediments to dealing in Pakistan. A look at the bigger recent investments bears this out. These have either been from powerful multinaor Honda in the vehicle sector, or from long-established groups like ICI, which is to invest \$450m in a new plant for PTA - the raw material for both PET, the polyester plastic used to make bottles and for polyester fabrics fibres plant over the next

two years. Moreover, while gross foreign direct investment figures are currently showing healthy growth, up 146 per cent in 1995-96 to \$1.09bn, the rising total masks the fact that the bulk of new flows are in a relatively small number of very big projects a trend which appears likely to continue.

Most of last year's rise in inflows is accounted for by capital for the construction of the \$1.6bn Hubco power plant nearing completion trial taxpayers. along the coast from Karachi. The likelihood of FDI flows rising beyond \$1.5-\$2bn a year for the next few years will, by the same token. reflect largely the planned ICI investments and a total of \$3.6bm to be invested in 17-19 new power projects. These are the result of the success of both Hubco and the raft of ironclad government guarantees offered under its subsequent twoyear-old private power pol-

Elsewhere, the picture is far less encouraging. Most notably, there is an absence both of widespread interest from smaller foreign invesinvestments into export-ori- nomic regime.

ented manufacturing indus-

tries. In part, smaller groups tend to be more easily put off by the perception of Pakistan's political risk, be it last year's bloodletting in Karachi or merely the recurrent political crises which have led to seven changes of government in the past eight

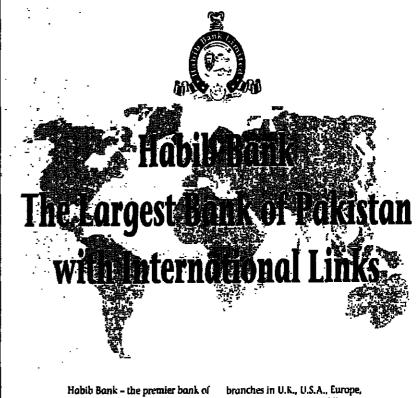
Moreover, while Pakistan's population of 130m offers an appealing enough market, for companies considering a single south Asian sortie. tional entrants, like Toyota India offers a quite dwarfing population of 950m people. "Altogether," concedes one foreign banker reflectively, "It can seem difficult to say what is attractive about Pakistan for the investor."

Hence the list of grievances from the OICCL. The and a further \$100m in a core of their concern is that industry and manufacturing are too heavily taxed, and that the tax regime is too frequently changed by governments scraping to find revenues to meet their chronically poor fiscal posi-

> This bias of taxation derives from Pakistan's political structure, in which the governing elite is largely landowning and agriculturally-based and therefore strongly resistant to spreading the burden of taxation away from urban and indus-

The consequence, as the OICCI suggests, is that duties in some industries. like tobacco or toiletries. now mean it is cheaper to import products than produce them locally. Or, that import duty rates for capital imports in industries like power and energy have been raised, reduced, then raised again such as to make a lottery of revenue or investment planning.

Much as investors have welcomed the economic rescue-plan of of Mr Shahid Javed Burki, the de facto finance minister in the interim administration, his arrival signals yet more tors and of significant changes to the country's eco-



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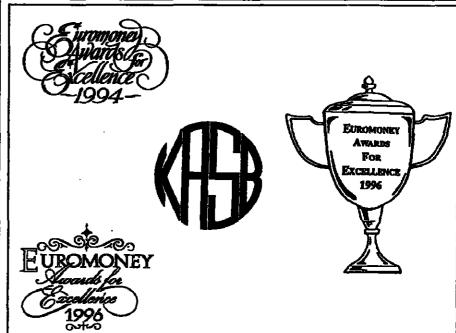
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Business guide: by Farhan Bokhari

Visitors need to respect the local economic and social environment

A few tips: commonly dreaded VIPs or the recent past, government ministers, MPs, senior high-ranking military officers, and relatives of people in many of these categories came under the VIP class. Special VIP perks meant exclusive passage through VIP lounges at airports, jumping queues and privi-leged access to other VIPs. Over the years, so many VIPs acquired this title that a further exclusive category VVIP (very, very important person) has been coined for the president and the prime minister.

The government of Mr Meraj Khalid has taken the first step towards ridding the country of the VIP culture. with the decision to close down VIP lounges at airports, though not regular first-class lounges. The staterun PIA (Pakistan International Airlines) has also stopped the block-booking of flight seats for VIPs making it relatively easier to get bookings on domestic flights at short notice.

But these new measures may only be a temporary first step, especially if one of the two mainstream political parties with a track record of promoting VIPs, returns to office. Remember, rubbing an important first step to entering the corridors of

A word of caution: some of from the former Bhutto government are now under investigation on graft • Health hazards are simirelated charges. Make certain that your VIP contact is Asian countries. Consult not behind bars, before you begin to throw the name

FINANCIAL TIMES

small number of Islamic activists and religious political parties. Visitors are therefore expected to dress and act accordingly in public, though religious constraints are often relaxed in private.

Alcohol is banned by law ◆ VIP: Many ordinary Pak- but drinking does take place istanis share a sense of in the privacy of homes. An extreme disgust with the exception is made in hotels where special permits have very important persons. In to be sought by non-Moslem guests to purchase alcohol which can only be consumed bureaucrats, police officials, in their rooms. Non-Moslem guests have to sign an undertaking which says that they must not offer alcohol to Moslems

> connections are the emerging new facility for businesses and private users. Pakistan's state-run Pakistan Telecommunications Corporation has launched an on-line internet service but subscribers have to be based in Pakistan. Make sure that your host in Pakistan has an on-line connection which you can use once you are in the country.

Communications: E-mail

Connections bowever can be unreliable with frequent line drops. The worst quality of service is found in the city of Lahore where users are far in excess of available to accommodate tourists. lines. But the lines out of Islamabad and Karachi are relatively more reliable. Recent improvements in

telecommunications have also made it easier to place an international call from hotel rooms though rates inclusive of operator handling charges are far higher than those charged through public call offices where long queues are not unusual. While in Lahore, Islamahad shoulders with VIPs often is and Peshawar, consider renting a mobile telephone to cut costs. In Karachi, mobile phones have been banned since the violence peaked the most prominent VIPs last July. Nobody knows exactly when the service will

be restored. your doctor before arriving, to find out if you need inoculation. As a general rule, try • Pakistan is a Moslem to avoid tap water, salads country where Islam and and ice cubes. Bottled minpolitics is a key issue for the eral water can be found in many large stores as well as refrigerators in hotel rooms, which are generally considered safe for drinking.

 The Meraj Khalid government has promised to step up the pace of the privatisation programme. This is a continuation of Pakistan's five-year-old economic

Government sanction letters are no longer needed for setting up new projects. Banking reform has allowed residents to open freely foreign exchange accounts and remit any quantity of money to and from Pakistan. Prospective investors in indusry are, however, advised to have a close check on the state of the infrastructure around their preferred site. The caretaker government's decision to make large cuts in expenditure are certain to hit important infrastructure development projects. Pakistan offers some o

the world's most attractive scenery, especially in its northern belt along the Himalayas. The state-run PTDC (Pakistan Tourism Development Corporation) may offer some useful information on where to go but it has done little to develop new facilities in recent years Visitors to Islamabad can take a flight to Gilgit for onward travel by jeep to Hunza and the Khunjerab pass - the last frontier post

along the Chinese border. However, if you are pressed for time, a car ride to the nearby town of Bhurban in the Murree hills is advised where the Pearl Continental hotel attracts many travellers. A day trip to the nearby town of Taxila is also recommended, where ruins of the ancient Indus valley civilization offer a unique perspective on the history of the South Asian region.

Travellers to Lahore in the Punjab should take time to visit the city's famous historical sites such as the Badlar to those in many other shahi mosque, tomb of emperor Jehangir and empress Nur Jehan. Lahore is Pakistan's most famous political city with outrageous but interesting gossip on the state of the country's politics and economy.

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Ecolonie autima)	1996(1).	1997(1)
Total GDP, nominal (\$ bn)	85.2	. 70.1
	4.6	5.0
GDP per head (3)	489	512
Inflation (ennual % change in CPI)	12.0	12.0
Industrial output (annual % change)	5.0	4.6
Agricultural production (annual % change)	6.7	5.8
Money supply, M2 (annual % change)	17.0	17.4
Foreign exchange reserves (\$bn)	2.3	2.75
Tourism & other for, exchange receipts (\$ks)		1.81
External debt (\$bn)		39.17
External debt/head (\$)		286
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£.	5.4%		6.2%	
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The president is head of state and is elected for a period of the years by a joint sitting of the federal legislature

or thre years, of whom 10 repr rities; the upper house, the aix years with one-third retiring every two years, each of the four provin are elected from the Federal Capita

National legislature

dature: the lower hors

ity elected members who above

cs has a povernor and a G ded by a provincia National government the PPP, backed by a coalition of

Provincial government

Pakistan has four provinces which

n People's Party (PPP):

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Energy: by Mark Nicholson

Power and some of the glory

The hugely successful drive

to increase capacity could yet have a downside

It took more than a decade from conception to execution, some unprecedented World Bank political risk guarantees and a net of tightly interlocking and hedged transaction agreements, but the first and biggest private power station in South Asia is up, running

and set to be fully commissioned by March next year a month early.

Hubco, the \$1.6bn power plant operated by Natio<u>nal</u> Power, the UK power group, synchronised the third of its four 323MW units with the Pakistan grid this month after the first two began delivering power this summer. The final unit, lifting output to 1292MW, will leave Hubco providing 13 per cent of Pakistan's power by next

By most measures, Hubco has been a widely acclaimed success, the financial arrangements for which have provided both a model for Pakistan's similarly applauded private power poland the impetus for a flush of subsequent private power deals. The deal was particularly important in engendering investor confidence in Pakistan, prevically risky state for such big infrastructure projects. "It has become the cornerstone for the power policy in Pakistan," says the head of one foreign financial institution in Karachi.

Seventeen other private power projects have since closed financing arrangements entailing investments of \$3.6bn, They will provide an additional generating

capacity of 3,192MW. So iron-clad are the finan-cial guarantees for Hubco offered by both the World authorities that investment analysts commonly liken Hubco stock to a fixed-interest security. "Hubco can essentially be viewed as a 30year Pakistan Eurobond with fixed annual coupon payments yielding 13 per cent at the [then] current price of Rs28.6 a share." HSBC James Capel recently

informed clients. Underpinning the whole is a political risk guarantee from the World Bank, the first such for Pakistan and a factor Hubco officials consider to have been decisive for the pioneering foreign investors involved in the project - chiefly National Power (which holds a 24 per cent stake) and Xenel, the Saudi industrial group (14 per cent). The political risk guarantee, plus a further series of government guarantees, also helped the project attract loans from some 60 foreign banks, 40 of which had never previously lent to Pakistan - and many of which have subsequently lent on to additional power projects in the

The project is leveraged at 72:28 debt to equity, with \$712m of commercial loans, \$426m from multilateral lenders and \$372m of equity raised through a 1994 local and international offering. The government has guaranteed foreign exchange

cover for interest and principal repayments and undertaken to index Hubco's revenue stream to the US dollar. adjusted for inflation and depreciation every six



30-year power purchase agreement with Hubco, guar-

return at 64.4 per cent of plant capacity with bonus payments for increased offtake and a 10-year tariff of 5.9 cents a unit. From the Hubco model, the government outlined a broader private power policy in 1994. It offered average bulk tariff rates of 6.5 cents a unit for the first 10 years, similar long-term fuel supply

contracts, foreign currency

guarantees, income and cor-

anteeing payments to cover fixed costs and an equity

porate tax exemptions and a series of additional sales tax and other concessions. Like those of its South Asian neighbours, Pakistan's incentives were designed to address a growing power shortfall. State-owned generating capacity of 13,121MW fell 2,000MW short of peak demand in 1994, a deficiency that some economists estimated was costing the economy \$1bn a year in lost

industrial output. Unlike those of some of its neighbours, though, its attempt to "pump prime" private and foreign investment through such a flagship project succeeded admirably. The contrast is starkest

with India, which in 1992 embarked on a similar bid to Power Development Author- into power by offering gov- to bear the burden of costs, ity (Wapda), Pakistan's state ernment-backed financial particularly foreign ated" when the power policy power utility, has signed a guarantees to eight "fast-

track" private power projects. But only one of these has so far succeeded in grid and India's first such project, the Dabhoi Power project in Maharashtra became so politically controversial - being cancelled, renegotiated and finally re-approved - that it raised substantial doubts about the viability of India's policy.

The complexity of India's

federal political system is partly to blame: it leaves power policy in the hands of central government, but implementation in those of state governments, making it difficult for the centre to impose a truly co-ordinated national policy. And because its ultimate power purchasers are politically controlled - and heavily loss-making state electricity boards, rather than one single government utility. India has found it vastly more difficult to match the overall financial and foreign exchange guarantees built into Pakistan's policy.

However, there is increasing concern in Pakistan that the guarantees that have so successfully attracted new power project investors to the country may turn out to be too good. There is some doubt that Wapda, and thus months. The Water and attract foreign investment the government, will be able exchange obligations, it is was formed

now contracted to pay The premise of the power policy is that the new gener-

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ation capacity will considerably bolster industrial output and, particularly, Pakistan's export industries. But the structural problems besetting the country's industrial sector and its narrow range of export earning manufacturers - which are mostly cotton and textile based - suggest it will take more than just greater availability of power to boost production. "The concern is developing because the promise of renewed manufacturing activity seems further away than the govern-ment hoped," says Mr Atif Bajwa, country manager of ABN-Amro Bank in Karachi.

Pakistan already suffers a chronic balance of payments weakness, a rising trade gap and at best flat non-cotton export output. However, commitments to the 17 finalised power projects will expose Pakistan to an additional foreign exchange obligation - for capital, interest and fuel costs - of between \$1bn-\$1.3bn a year for the next 12 years, according to recent confidential research by a foreign institution. The result, according to its report, will be "very significant pressure" on Pakistan's balance of payments, costs foreign ated" when the power policy

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